BAA (SH) Limited

Annual report and financial statements for the year ended 31 December 2009

Company registration number: 06458635

BAA (SH) Limited

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BAA (SH) Limited

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Business review

BAA (SH) Limited ('BAA SH' or 'the Group') is the holding company of BAA (SP) Limited ('BAA SP'), which itself is the holding company of a group of companies that owns Heathrow and Stansted airports and operates the Heathrow Express rail service between Heathrow and Paddington, London. The Group also owned Gatwick airport until 3 December 2009. BAA (SH) Limited is an indirect subsidiary of BAA Limited ('BAA Group').

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

This business review is presented under three sections:

Management review – overview of the year ended 31 December 2009, along with the key factors likely to impact the Group in 2010.

Financial review – presentation and explanation of the key drivers behind the financial performance reported for the year ended 31 December 2009 and analysis of the financial position of the Group as at that date. The Group's accounting and reporting policies and procedures are also considered.

Risk management – outline of the BAA Group's approach to risk management, sources of assurance and highlights of the key business risks identified by the BAA Group Executive Committee.

Management review

Review of 2009

Transforming the Group's airports

The Group has continued to implement its strategy to deliver sustained improvement in passengers' experience and airlines' operations through improved service standards and substantial investment in modern airport facilities. For Heathrow, in particular, the strategic objective is to make Heathrow into Europe's hub of choice by making every journey better. This will ensure customers enjoy superior facilities relative to competitors, encouraging greater utilisation of the Group's airports and supporting their long term growth ambitions.

Service standards

The Group continues to focus on delivering consistently high service standards across its airports, a key strategic priority. It also expects improving service standards to play a key part in driving cost efficiency.

Operational performance improved significantly in 2009. At Heathrow, the proportion of aircraft departing within 15 minutes of schedule increased to 77% (2008: 69%) and at Stansted increased to 82% (2008: 79%). This was despite the significant impact on performance during December from both adverse winter weather across much of the northern hemisphere and new security requirements implemented on flights to the US following the Delta Air Lines terrorist incident on 25 December.

Other key operational and service standards improved. At Heathrow, the proportion of baggage not accompanying passengers on their journeys almost halved whilst 97.9% of passengers (2008: 95.5%) passed through security in less than five minutes.

These improvements in service standards are reflected in recent results in the independent Airport Service Quality surveys produced by Airports Council International in which Heathrow has improved its ranking amongst the five largest airports in Europe over the last two years, now ranking second. Heathrow's overall passenger satisfaction score in this survey was 3.78 in the fourth quarter of 2009 compared to 3.42 and 3.70 in 2007 and 2008 respectively.

Developing modern airport facilities

During 2009, there have been a number of significant milestones achieved as the Group continues to invest in transforming its airport facilities.

At Heathrow, works are well underway for the construction of the new Terminal 2 including completion of the first phase of its future satellite building. In addition, demolition of the Queen's Building has been completed and the existing Terminal 2 was closed in late 2009 prior to its demolition. The first phase of the new terminal will have a capacity of 20 million passengers per annum. A second phase will extend the terminal into the existing Terminal 1 site, increasing capacity to 30 million passengers per annum. The new Terminal 2 will produce 40% less carbon than the buildings it replaces.

Extensive refurbishment of Terminal 4 continued with completion of new forecourt and check-in facilities and ongoing work in the central search area and the immigration hall. Passengers now enjoy a new, modern airport building offering improved facilities and higher service standards. Significant sums are being invested in developing what will be the largest integrated baggage handling system in the world including construction of a 1.8 kilometre tunnel between Terminals 3 and 5. Tunnelling work was completed in August 2009 and the tunnel is currently being fitted out. Work continues on construction of Terminal 5C, the second satellite terminal for Terminal 5, that remains on schedule to be completed in early 2011.

During 2009, a total of 37 airline relocations occurred at Heathrow particularly reflecting the closing of Terminal 2 and increased utilisation of Terminal 4's refurbished facilities.

At Stansted, the main focus of investment on existing facilities was upgrading and reconfiguring car parks. The existing terminal's modernisation programme also made good progress. Work also continued towards securing planning approval for a second runway although its intensity reduced reflecting delays in the public enquiry on the proposals; Stansted continued to purchase properties that would be blighted when the second runway proceeds.

Management review *(continued)*

Passenger traffic trends
Passenger traffic for the year ended 31 December 2009 at Heathrow and Stansted is analysed below.

	Year ended 31 December 2009	Year ended 31 December 2008	Change (%)[1]
Passengers by airport (millions)			
Heathrow	**65.9**	66.9	(1.5)
Stansted	**20.0**	22.3	(10.7)
Total passengers[1]	**85.9**	89.2	(3.8)
Passengers by market served (millions)			
UK	**7.2**	7.9	(9.6)
Europe[2]	**43.5**	46.1	(5.6)
Long haul	**35.2**	35.2	(0.2)
Total passengers[1]	**85.9**	89.2	(3.8)

[1] These figures have been calculated using un-rounded passenger numbers.
[2] Includes North African charter traffic.

In the year ended 31 December 2009, the combined passenger traffic at Heathrow and Stansted declined 3.8% to 85.9 million (2008: 89.2 million) reflecting the macroeconomic environment. The rate of decline moderated substantially as 2009 progressed, from 8.3% in the first quarter to 0.5% in the final quarter.

Heathrow delivered the most resilient performance of the major European airports with passenger numbers declining only 1.5% to 65.9 million (2008: 66.9 million) against an average decline of 5.6% amongst the next four largest airports in Europe. Heathrow benefited particularly from the strength of its position as a major global hub airport for long haul traffic which has been the best performing segment of the aviation industry. Traffic with markets such as India and the Middle East grew strongly, at 10.0% and 10.4% respectively. As a result, 52.9% (2008: 52.2%) of Heathrow's traffic is now on long haul routes.

Heathrow's traffic performance improved as the year progressed with year on year growth of 0.3% and 1.1% in the third and fourth quarters respectively. This recovery reflected growth in both emerging market long haul and European scheduled traffic. 2009 saw significantly higher capacity utilisation at Heathrow with the number of passengers per air transport movement up 1.3% compared to 2008. Another key driver of Heathrow's performance was an increased proportion of transfer passengers (2009: 37.4%; 2008: 35.9%).

At Stansted, passenger traffic declined 10.7% to 20.0 million (2008: 22.3 million). As at Heathrow, year on year traffic performance improved as the year progressed, with a 14.6% decline in the first quarter moderating to a 5.7% decline in the final quarter.

Across the Group's two airports, emerging market long haul traffic increased 1.6% to 20.4 million (2008: 20.1 million) driven by performance at Heathrow as well as the launch of new low cost long haul services at Stansted. In 2009, overall European traffic declined 5.6% to 43.5 million (2008: 46.1 million) with scheduled traffic reducing 5.3%. Domestic traffic accounts for only 8% of Heathrow and Stansted's total traffic and during 2009 it declined 9.6% to 7.2 million passengers (2008: 7.9 million).

Gatwick disposal
On 3 December 2009, the BAA Group completed the sale of Gatwick airport for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt.

Regulatory developments

Competition Commission inquiry into the supply of UK airport services by BAA
In March 2009, the Competition Commission ('CC') published its final decision in relation to its investigation into the supply of UK airport services by BAA.

The decision's key structural remedy called for the disposal of airports including Gatwick, Stansted and one Scottish airport.

In May 2009, BAA applied to the Competition Appeal Tribunal ('CAT') to review the CC's decision on two separate grounds. The first was that the participation of a member of the CC's inquiry panel in its investigation contravened the principle of apparent bias. The second was that, in assessing the proportionality of the disposal remedies, the CC failed to consider fully key issues relating to the costs of disposal, particularly in the context of the current financial and economic crisis.

In December 2009, the CAT upheld BAA's appeal on the grounds of apparent bias. On 10 February 2010, the CC announced that it was seeking leave to appeal to the Court of Appeal against the CAT's judgement. On 25 February 2010, the CAT ordered that the decisions of the CC in their report of 19 March 2009 relating to common ownership of airports be quashed. The CAT also ordered that the matter be referred back to the CC to reconsider but that this referral will not take effect until the dismissal of any appeal. The CAT also decided that the CC's and Ryanair's requests for permission to appeal be refused. However, on 25 March 2010, the Court of Appeal granted permission to the CC to appeal. The Court of Appeal hearing date has not yet been fixed but is expected to be determined shortly.

Regulatory developments (continued)

Department for Transport ('DfT') review of UK airport economic regulation
In 2009, the Government substantially completed its review of the economic regulation of UK airports. BAA supports the review's conclusions which remove key uncertainties for BAA and its creditors and underline the need for the Civil Aviation Authority ('CAA') to ensure airport operators have the necessary resources to operate and invest in their airports.

The reforms include introducing a new single primary duty for the CAA to promote the interests of existing and future end consumers of passenger and freight services, wherever appropriate by promoting effective competition. There will also be supplementary duties including having regard for the environmental impacts of airport development, meeting reasonable demands for airport services efficiently, ensuring airports can finance their activities and assisting in delivering airport infrastructure consistent with the UK Government's national aviation policy. Many of the reforms will be effected through a new tiered operating licence regime for airports similar to licences in place in certain other regulated sectors such as water and energy.

The Group's airports are expected to be in the top tier of licence (Tier 1), subject to price control arrangements and also obliged to consult stakeholders on future plans for investment in, and the operation of, an airport, to report on environmental performance and to comply with service standards and measures to hold an operator to account for the delivery of agreed investment outputs, including a possible sanctions regime.

The reforms also include measures to promote the financial resilience of Tier 1 airports. These include introducing financial ring-fencing provisions that would broadly prohibit the granting or subsistence of security over airport assets, subject to derogations in respect of those elements that cut across existing financing arrangements. They will also require operators to maintain a minimum level of creditworthiness. However, the Government decided not to proceed with the introduction of a special administration regime that was proposed in its original consultation document.

In December 2009, the Government commenced further consultations on whether Tier 1 airports should be required to maintain a continuity of service plan for use in the event of insolvency and a mechanism for the CAA to switch on financial ring-fencing provisions that are subject to initial derogations where there has been a material change of circumstance and the benefits outweigh the costs. These consultations have ended and proposals arising from them are awaited.

Changes resulting from the review will be implemented by primary legislation as soon as parliamentary time allows. The regulatory settlements applying to Heathrow until March 2013 and to Stansted until March 2014 will not be affected by the proposed changes to the regulatory framework.

Aeronautical charges at Stansted for five years to 31 March 2014
In March 2009, the CAA issued its final determination on aeronautical charges to apply at Stansted airport for the five years to 31 March 2014. Key features of the CAA's proposals include a permitted real pre-tax return on capital of 7.1%. It recommended that maximum allowable aeronautical charges remain flat at £6.53 (in 2009/10 prices) per passenger for two years and increase up to £6.85 by 2013/14.

The CAA's recommendations were based on a capital plan of approximately £90 million, in 2007/08 prices, primarily on Stansted's existing facilities over the five years to 31 March 2014.

Whilst the CAA excluded £37 million of expenditure on Stansted Generation 2 ('SG2') incurred during the previous quinquennium, it accepted that expenditure in the current quinquennium up to receipt of planning consent of £40 million can be included in the Regulatory Asset Base ('RAB'). Construction expenditure on SG2 is excluded from the RAB at this stage, however in the event of planning approval being received during the five year period to 31 March 2014, Stansted Airport has the opportunity to request a mid-quinquennium review.

Government decision on adding capacity at Heathrow
In January 2009, the UK Government announced that it was satisfied that the conditions for the development of Runway 3, set out in the White Paper 'The Future of Air Transport' published in 2003, could be met thereby further confirming the Government's support for a third runway.

Outlook
The Group expects 2010 to present further significant challenges. However, a modest recovery in passenger traffic volumes is expected which will support corresponding growth in revenue, EBITDA and cash flow.

Developments since beginning of 2010
In the first two months of 2010, the combined passenger traffic for the Group's airports increased 0.6% to 11.9 million (2009: 11.8 million) with year-on-year comparisons complicated by adverse weather conditions that affected both years with the underlying traffic trend estimated to have been slightly better than the reported trend.

In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares of £1.00 each to BAA (DSH) Limited. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (SP) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share.

Financial review

Introduction
The following financial review, based on the consolidated financial statements of the Group, provides commentary on the performance of the Group's airports. Consistent with statutory accounting and IFRS, the business review presented excludes operations that have been disposed of during the year, or have been classified as held-for-sale by management (refer below).

Basis of preparation of statutory results
A number of significant events which are highlighted in the "Management Review" have impacted the way in which the statutory financial results for 2009 have been presented:

Discontinued operations - The Group announced plans to sell Gatwick airport and classified it as held-for-sale for the year ended 31 December 2008. The entity was sold on 3 December 2009, and the financial results to this date, including loss on disposal, are disclosed as discontinued operations in the statutory accounts in accordance with IFRS;

Exceptional items and certain re-measurements - these include the following:

i) £218 million charge for the change in the Group's share of the BAA group's defined benefit pension scheme deficit at year end;
ii) £93 million of fair value losses arising from the revaluation of investment property;
iii) £120 million of fair value losses on financial instruments; and
iv) £55 million relating to accelerated depreciation on Heathrow Terminals 1 and 2.

Basis of preparation of financial results
In order to provide a more meaningful comparison of performance between 2008 and 2009 and an appropriate basis for assessing ongoing performance, the information presented under revenue, aeronautical income, retail income, other income, adjusted operating costs, Adjusted EBITDA, exceptional items and operating profit focuses on the Group's continuing operations.

Summary performance

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Continuing operations			
Revenue	**1,978**	1,827	8.3
Adjusted operating costs	**(1,093)**	(1,071)	2.1
Adjusted EBITDA	**885**	756	17.1
Exceptional items - pensions	**(218)**	(13)	1,576.9
Exceptional items - other	**1**	(19)	105.3
EBITDA	**668**	724	(7.7)
Fair value loss on investment properties	**(93)**	(147)	(36.7)
Depreciation and amortisation - ordinary	**(456)**	(383)	19.1
Depreciation - exceptional	**(55)**	(84)	(34.5)
Operating profit - continuing operations	**64**	110	(41.8)
Net finance cost	**(637)**	(628)	1.4
Fair value (loss)/gain on financial instruments	**(120)**	129	(193.0)
Loss before tax	**(693)**	(389)	78.1
Taxation	**164**	(953)	(117.2)
Loss for the year from continuing operations	**(529)**	(1,342)	(60.6)
Loss from discontinued operations	**(120)**	(92)	30.5
Consolidated loss for the year	**(649)**	(1,434)	(54.7)

Financial review *(continued)*

Revenue
In the year ended 31 December 2009, revenue from continuing operations increased 8.3% to £1,978 million (2008: £1,827 million). This reflects increases of 11.5% in aeronautical income, 5.0% in gross retail income and 4.0% in other income. On a like-for-like basis (the relevant adjustments are discussed in more detail in 'Aeronautical income' and 'Other income' below), revenue increased 5.3% to £1,930 million.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Aeronautical income	**1,093**	980	11.5
Retail income	**440**	419	5.0
Other income	**445**	428	4.0
Total	**1,978**	1,827	8.3

Aeronautical income
Aeronautical income increased by 11.5% to £1,093 million (2008: £980 million). Average aeronautical income per passenger increased by 15.9% to £12.73 (2008: £10.99).

Aeronautical charges summary (by airport)

	Aeronautical income			**Per passenger**[1]		
	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %	**Year ended 31 December 2009 £**	Year ended 31 December 2008 £	Change %
Heathrow	**961**	835	15.1	**14.58**	12.48	16.8
Stansted	**132**	145	(9.0)	**6.62**	6.50	1.9
Total	**1,093**	980	11.5	**12.73**	10.99	15.9

[1] Percentage change calculated using un-rounded aeronautical income per passenger.

Growth in aeronautical income was driven by the revised tariffs at Heathrow from 1 April 2008 but also reflected the phased introduction of the new tariffs over the first year of the new regulatory period. The change in aeronautical income at Stansted reflected the decline in passenger traffic with tariffs remaining flat. After adjusting for £32 million of income related to the provision of aerodrome navigation services by National Air Traffic Services ('NATS') in the first quarter of 2009 (as such income was not applicable in the first quarter of 2008), and phasing of the increased Heathrow tariffs that impact reported aeronautical income in both 2008 and 2009, aeronautical income is estimated to have increased 6.2%.

Retail income
The Group's retail business delivered a strong performance in 2009 given the general economic environment. For the year ended 31 December 2009, net retail income (i.e. gross retail income less car park management charges) ('NRI') per passenger increased 6.1% to £4.72 (2008: £4.45) due to a very strong performance by Heathrow.

The tables below reconcile gross retail income with net retail income and analyse net retail income by activity.

Reconciliation of net retail income and net retail income per passenger

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Retail income	**440**	419	5.0
Less retail expenditure	**(35)**	(22)	59.1
Net retail income	**405**	397	2.0
Passengers (million)[1]	**85.9**	89.2	(3.8)
Net retail income per passenger[1 2]	**£4.72**	£4.45	6.1

[1] Percentage change calculated using un-rounded numbers.
[2] Net retail income per passenger calculated using un-rounded numbers.

Financial review *(continued)*

Analysis of net retail income

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change %
Car parking	**67**	85	(21.2)
Duty and tax-free	**101**	90	12.2
Airside specialist shops	**66**	62	6.5
Bureaux de change	**43**	37	16.2
Catering	**36**	36	-
Landside shops and bookshops	**26**	27	(3.7)
Advertising	**32**	28	14.3
Car rental	**14**	12	16.7
Other	**20**	20	-
Total	**405**	397	2.0

In 2009, Heathrow generated its highest level of retail income since intra-EU duty free shopping was abolished in 1999, with gross retail income up 7.0% to £352 million (2008: £328 million) and NRI per passenger increasing 6.7% to £4.93 (2008: £4.62). Most areas of the retail business performed well, with the main growth drivers being duty and tax-free shopping, airside specialist shops, bureaux de change and advertising. The strong in-terminal shopping performance reflected a higher proportion of intra-terminal transfer passengers, providing longer departure lounge dwell times for such passengers, as well as increased passenger numbers benefiting from Terminal 5's high quality retail facilities. It also reflected the improved value of the offer resulting from the depreciation of sterling.

Stansted's retail income declined 3.3% to £88 million (2008: £91 million), a resilient performance given passenger trends meaning that NRI per passenger actually increased 2.0% to £4.00 (2008: £3.92). Performance was driven by significant growth in duty and tax-free shopping.

At both Heathrow and Stansted, the strength of in-terminal retail activities was partially offset by lower car parking income due to economic conditions encouraging passengers to use alternative transport to travel to and from the airports, an increase in lower yielding advance car park booking and, in the case of Heathrow, increased transfer passengers as discussed above in 'Passenger traffic trends'.

Other income

Income from activities other than aeronautical and retail increased 4.0% to £445 million (2008: £428 million). This included a 10.3% increase in property rental income to £107 million (2008: £97 million) and an increase in rail income of 7.0% to £92 million (2008: £86 million). Other income includes £3 million from the provision of services for passengers with reduced mobility ('PRM') in the first quarter of 2009 that were not provided in the corresponding period of 2008. Adjusting for this, other income increased 3.3%.

Adjusted operating costs

Adjusted operating costs exclude depreciation and exceptional items. In order to provide a more meaningful comparison of trends in individual cost categories between 2008 and 2009, the discussion below is based on re-allocating Adjusted operating costs for 2008 related to Heathrow Express Operating Company Limited for the period prior to its acquisition by the Group on 7 August 2008 out of intra-group charges to reflect the underlying nature of its costs as set out in the figures for 2008 below.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Change **%**
Employment costs	**291**	341	(14.7)
Maintenance expenditure	**147**	134	9.7
Utility costs	**126**	94	34.0
Rents and rates	**129**	105	22.9
General expenses	**237**	230	3.0
Retail expenditure	**35**	22	59.0
Intra-group charges/other	**128**	145	(11.7)
Total	**1,093**	1,071	2.1

In the year ended 31 December 2009, adjusted operating costs increased 2.1% to £1,093 million (2008: £1,071 million). This reflected mainly an increase in rents and rates due to higher rates and additional properties, higher utility costs caused primarily by increased electricity costs and growth in general expenses driven by higher NATS and PRM costs (that are recovered in aeronautical income and other income discussed in 'Revenue'). These increases were offset by a significant 14.7% reduction in employment costs due to a number of factors such as fewer senior managers, lower recruitment costs, lower pensions costs and reduced bonus payments. There was also a reduction in intra-group charges particularly related to lower central overheads of the wider BAA Group charged to the Group under shared service arrangements.

Financial review *(continued)*

Adjusted operating costs *(continued)*
The substantial progress made by the Group in reducing operating costs is more accurately reflected by adjusting particularly for the fact that both Terminal 5 costs and NATS and PRM costs were relevant for a full year compared with nine months in 2008. On this basis, adjusted operating costs declined 1.7% to £1,053 million as illustrated in the table below.

	£m
2009 reported adjusted operating costs	1,093
NATS and PRM costs in the first quarter of 2009	(19)
Incremental Terminal 5 costs	(21)
2009 underlying adjusted operating costs	1,053
2008 reported adjusted operating costs	1,071
Change in underlying adjusted operating costs	(1.7%)

The adjustment for NATS and PRM costs resulted in underlying general expenses declining 8%, partly reflecting significantly lower service quality rebates, reinforcing the benefits of the Group's improved operational standards.

Adjusted EBITDA
Adjusted EBITDA for the Group's continuing operations in the year ended 31 December 2009 increased 17.1% to £885 million (2008: £756 million). The key drivers of the positive development in Adjusted EBITDA were:

- Increased aeronautical tariffs driving higher aeronautical income;
- Robust performance enabling increased retail income despite a 3.8% reduction in passengers;
- Cost control resulting in adjusted operating costs increasing well below the rate of revenue growth.

Adjusted EBITDA at Heathrow (including Heathrow Express Operating Company Limited) increased 22.5% to £783 million (2008: £639 million) primarily reflecting increased aeronautical income. Stansted's Adjusted EBITDA declined 12.8% to £102 million (2008: £117 million) primarily reflecting the impact of lower passenger traffic on aeronautical income.

Exceptional items (including depreciation)
There were £272 million in net pre-tax exceptional items in the year ended 31 December 2009 (2008: £116 million). These included a £218 million non-cash charge relating primarily to the Group's share of the change in the BAA Group's defined benefit pension scheme deficit. The emergence of a deficit during 2009 (the scheme was in surplus at the end of 2008) was due to increased liabilities reflecting a lower discount rate and a higher forecast inflation curve. The retirement benefit obligations as at 31 December 2009 have been calculated on a consistent basis with the previous year, with updates provided on market-based assumptions. The year end deficit takes into account the projected impact of the transfer out of the scheme of Gatwick employees who decide to join their new employer's scheme. However, the deficit at the end of 2009 does not reflect the benefit of the commutation payment into the scheme that may arise due to the Gatwick sale that would reduce commensurately the scheme's deficit, assuming no other changes. The Group's agreed annual cash payments to the scheme are approximately £70 million until the end of 2011.

The remainder of the operating exceptional items primarily reflect a charge of £55 million (2008: £84 million) related to accelerated depreciation due to Terminal 1 and 2's shortened lives given the new Heathrow Terminal 2 development.

Fair value losses on investment property valuation
Investment properties were valued at a fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors, and Strutt and Parker, Chartered Surveyors. Investment property comprises mainly car parks and airside assets at the Group's airports and are considered less vulnerable to market volatility. The valuation as at 31 December 2009 resulted in a fair value loss of £93 million (2008: £147 million loss). This reflected the impact of the difficult economic environment on property valuations generally which specifically affected the valuation of the Group's car parks at both Heathrow and Stansted. Refer to Note 10 'Investment properties' of the financial statements.

Fair value losses on financial instruments
A net fair value loss of £120 million on financial instruments has been recognised in the income statement (2008: £129 million gain). This loss related primarily to index-linked swaps which economically hedge the Group's RPI linked revenue. The Group does not apply hedge accounting to these swaps as the standard does not contemplate achieving hedge accounting using these products.

Depreciation and amortisation
Depreciation and amortisation for the year ended 31 December 2009, excluding exceptional charges, was 19.1% higher at £456 million (2008: £383 million) driven by additional depreciation following Terminal 5 being brought into use from March 2008.

Net finance cost
Net finance cost is discussed together with net interest paid under 'Net finance cost and net interest paid'.

Taxation
The tax credit recognised for the year was £164 million (2008: tax charge of £953 million). Based on a loss before tax for the year of £693 million (2008: £389 million), this results in an effective tax rate of 23.7% (2008: 29.8% before exceptional tax charge). Refer to Note 6 'Taxation' of the financial statements.

Net loss from discontinued operations
There was a net loss from discontinued operations of £120 million (2008: £92 million) related to the sale of Gatwick that resulted from a £161 million loss on disposal reflecting the difference between Gatwick's sale price and its carrying value. The loss on disposal comprised an initial £106 million impairment charge and an additional loss of £55 million determined following completion of the sale.

Dividend
No dividend was paid or declared in the year ended 31 December 2009 (2008: £702 million paid).

Financial review *(continued)*

Summary cash flow

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Cash generated from continuing operations	**851**	638
Taxation – group relief received	**50**	31
Cash generated from discontinued operations	**132**	126
Net cash flow from operating activities	**1,033**	795
Capital expenditure	**(876)**	(919)
Investing activities of discontinued operations[1]	**1,234**	(114)
Acquisition of Heathrow Express Operating Company Limited	**-**	(4)
Proceeds from issue of ordinary shares	**283**	-
Net interest paid	**(487)**	(79)
Net movement in bonds	**924**	-
Net movement in borrowings	**(660)**	386
Restricted cash	**(143)**	-
Other	**(157)**	-
Financing activities of discontinued operations	**(1,093)**	117
Net increase in cash and cash equivalents	**58**	182

[1] Includes proceeds from disposals of operations.

Cash flow from operating activities
Net cash inflow from continuing operations in the year ended 31 December 2009 increased 33.4% to £851 million (2008: £638 million). Net cash inflow from continuing operations is after utilising £17 million in reorganisation provisions charged as exceptional items in prior years. It also reflects pension cash costs being £32 million higher than pension costs charged to the income statement. Excluding these items, net cash inflow from continuing operations was £900 million which compares with Adjusted EBITDA of £885 million.

Capital expenditure
In the year ended 31 December 2009, the Group invested £876 million in capital expenditure (2008: £919 million) with £818 million at Heathrow and £58 million at Stansted.

The major projects at Heathrow included construction of a tunnel between Terminals 3 and 5 for an integrated baggage system. Work also continued on constructing Terminal 5C, the second satellite for Terminal 5, whilst the first phase of Terminal 2B, the satellite building for the new Terminal 2 was completed and became operational. There were various other projects in the rest of the Heathrow campus, such as the Terminal 4 refurbishment and improvement of check-in capacity associated with airline relocations.

Stansted's capital expenditure comprised of £35 million on modernising existing infrastructure and £23 million under blight compensation schemes related to the proposed development of a second runway.

Net debt and liquidity
The analysis below is in respect of continuing operations and excludes £143 million in restricted cash which is held in escrow from the disposal of Gatwick to meet potential pension commutation payments.

At 31 December 2009, the Group's total nominal net debt was £10,117 million (2008: £9,915 million) whilst the accounting value of net debt excluding accrued interest was £10,235 million (2008: £10,151 million). The increase in debt during 2009 is due to post-interest cash flow together with proceeds from that part of the equity injection announced in November 2009 that was completed by year end being more than offset by capital investment in the Group's airports.

The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two well received bond issues that generated proceeds of approximately £925 million for the Group. This has resulted in nominal debt outstanding under bond issues at 31 December 2009 of £5,434 million (2008: £4,499 million).

The proceeds from these bond issues together with approximately £1.2 billion of the proceeds from the sale of Gatwick were utilised in repaying the bank refinancing facility such that the nominal value outstanding at 31 December 2009 was £2,283 million (2008: £3,350 million or £4,400 million including £1,050 million held at Gatwick). At 31 December 2009, the Group also had £2,640 million (2008: £2,233 million) of nominal debt outstanding under various other bank debt facilities.

At 31 December 2009, the Group had cash and cash equivalents of £240 million (2008: £167 million), excluding £143 million in restricted cash held in escrow from the Gatwick disposal to meet potential pension commutation payments.

The average cost of the Group's external debt at 31 December 2009 was 5.62% (2008: 6.60%) after hedging including the real cost of index-linked hedges.

Financial review *(continued)*

Net debt and liquidity *(continued)*
Following the repayment of the refinancing facility referred to above, the Group has no significant debt maturities in 2010. The Group is strongly cash generative with £364 million of surplus cash flow after payment of interest in 2009. At 31 December 2009, the Group had approximately £2.3 billion in cash resources and undrawn bank facilities. Together, these sources of funding provide the Group with significant liquidity to meet its financing requirements for the foreseeable future.

Equity injection
In November 2009, a £500 million equity injection into the Group was announced. The funds were provided primarily from existing financial resources of FGP Topco Limited, the Group's ultimate holding company, jointly owned by BAA's three controlling shareholders, as well as new equity injected into BAA by its shareholders. The proceeds of the equity injection are intended to strengthen the Group's long term financial ratios by paying down debt and restructuring the Group's derivative portfolio to reduce interest costs. By 31 December 2009, £283 million of this investment had been completed and the remaining funds were injected in January 2010.

Regulatory Asset Base ('RAB')
Set out below are RAB figures for the Group's airports at 31 December 2008 and 31 December 2009. RAB figures are utilised in calculating gearing ratios under the Group's financing agreements.

	Heathrow £m	Stansted[1] £m	Total £m
31 December 2008	9,662	1,231	10,893
31 December 2009	10,453	1,291	11,744

[1] Figure at 31 December 2008 amended from £1,222 million originally disclosed due to review in producing March 2009 regulatory accounts.

During 2009, growth in the combined RAB for Heathrow and Stansted reflected the addition of approximately £845 million in capital expenditure partially offset by regulatory depreciation of around £470 million. Variation in RAB profiling adjustments added a further £205 million to the closing RAB whilst inflation resulted in a net positive indexation adjustment of approximately £275 million over the year.

Net finance costs and net interest paid
In the year ended 31 December 2009, the Group's net finance costs before certain re-measurements were £637 million (2008: £628 million), which included £789 million of interest on external bonds and bank debt and related derivatives, £18 million of financing facility fees, and £3 million of other items. These charges were partially offset by £151 million in finance income and £22 million in capitalised interest. Refer to Note 5 of the financial statements.

Net interest paid in the year ended 31 December 2009 was £487 million (2008: £79 million). The significantly lower interest paid in 2008 is due to the fact that prior to the refinancing completed in August 2008 there was only intra-group debt on which interest was being accrued but not paid.

Net interest paid is lower than net finance costs during 2009 primarily due to an amortisation charge in 2009 of £140 million in net finance costs relating to derivative interest prepaid in 2008.

Accounting and reporting policies and procedures
This annual report complies with the European regulation to report consolidated financial statements in conformity with ('IFRS') from 1 April 2005 onwards. The consolidated results in the financial statements for the year ended 31 December 2009 are presented on an IFRS basis as adopted by the European Union, along with the comparative information for the year ended 31 December 2008. The BAA (SH) Limited entity ("the Company") accounts are stated under UK GAAP. The Group's accounting policies and areas of significant judgements and estimates are detailed within the financial statements.

BAA (SH) Limited

Risk management

Risk management is a key element of the BAA Limited Group's (the 'BAA Group') operations of which the Group forms part. Risk is centrally managed for the Group as part of corporate services provided under the Shared Services Agreement ('SSA') (refer Accounting policies). In addition the Group has a fully dedicated senior team which implements and manages risk closely following the BAA Group's guidelines. The Executive Committee and Board referred to in the notes below relates to the Executive Committee and Board of BAA Limited.

Risk management in the BAA Group facilitates the identification, evaluation and effective management of the threats to the achievement of the BAA Group's purpose, vision, objectives, goals and strategies. The vision of risk management is to embed the awareness of risk at all levels of the organisation, in such a way that all significant business decisions are risk-informed. Particular emphasis is given to safety and security, environmental, commercial, financial, reputational and legal risks in pursuit of BAA Group's strategic framework.

A key element of the risk management process is the method of profiling risk. This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at a residual level, after taking account of mitigating and controlling actions. Details are maintained in risk registers which are used as the basis for regular review of risk management at Executive Committee level. The risk registers are also used to make informed decisions relating to the procurement of insurance cover.

The risk management process is also aimed at defining and implementing clear accountabilities, processes and reporting formats that deliver efficient and effective management assurance to the Board to ensure statutory compliance whilst supporting business units to successfully manage their operations.

The operation of the process and the individual registers are subject to review by BAA Group's Business Assurance function, whose primary responsibility is to provide independent assurance to the Board that the controls put in place by management to mitigate risks are working effectively.

The principal corporate risks as identified by the Executive Committee are:

Safety and security risks
Safety and security risks are regarded as an important risk to manage throughout the BAA Group. The BAA Group mitigates this risk by adopting and enforcing rigorous policies and procedures supported by professional training and by investment in leading-edge security technology. The Group works closely with government agencies, including the police and UK Border Agency, to match security measures to a level commensurate with the current raised threat environment.

Assurance is provided through management reporting processes and a specialist compliance audit function, reporting directly to the Health, Safety, Security and Environment Committee.

Regulatory environment, legal and reputational risks
Civil Aviation Authority ('CAA') regulation
As noted previously, the Group's operations at Heathrow and Stansted airports are subject to regulatory review by the CAA and CC every five years. The risk of an adverse outcome from the five-yearly review is mitigated as far as possible by a dedicated project team which ensures full compliance with formal regulatory requirements, establishes a sound relationship with the regulator and advises the Executive Committee and Board on regulatory matters. Further, a settlement was reached for Stansted airport during the year regarding the five years ended 31 March 2014.

Part of the regulatory framework is the Group's involvement in constructive engagement with its airline customers. In order to manage the risk of adverse airline relations, all airlines are invited to participate at all stages of the constructive engagement process and to be represented on all fora – eg joint steering groups. When feedback is sought or processes measured, independent third parties are utilised for data gathering and analysis to ensure confidentiality and neutrality of interpretation. In addition, key stakeholders are engaged on a joint planning basis which provides airlines with the opportunity to air views and share plans, thereby ensuring their ongoing requirements are articulated and understood.

Competition rules
The penalties for failing to comply with the 1998 Competition Act and relevant EU law are recognised as risks to manage within the Group, given its position in certain markets. Clear policy direction, which includes compulsory awareness training and close support from the internal legal department, has reduced the likelihood of the Group breaching these regulations. Refer to the 'Management review' section for details on the current DfT regulatory review and the Competition Commission's inquiry into the supply of UK airport services by BAA.

Capacity shortfall
Failure to secure necessary planning permissions could lead to the Group having insufficient capacity to meet the demands of the industry resulting in increased congestion and declining passenger service. The Group mitigates this risk through extensive consultation with community groups and authorities at a local level and active participation in Government consultations and other advisory groups. In addition, investment in additional capacity at the Group's airports will be partly dependent on an appropriate level of investment incentives being provided in future regulatory settlements.

Existing planning approvals provide for approximate passenger traffic growth at Heathrow (including Terminal 5) to 90 million and Stansted to around 35 million. In 2007 the Group announced details of its development proposal for Stansted Generation 2 ('SG2') which includes the provision of a second runway and terminal and will have an initial capacity for about 10 million passengers per annum.

The UK Government's Aviation White Paper *'The Future of Air Transport'* ('the White Paper') was published in December 2003 and clarified the Government's policies regarding airport expansion for the whole of the country. It emphasised the need for airport operators to invest in delivering new capacity. The Group recognises a need to manage airport development following the White Paper in a way that does not lead to a loss of public or political confidence in the Group. To mitigate this risk, separate dedicated project teams (with relevant expertise and disciplines) for Heathrow and Stansted have been established to work closely with local communities, airlines and other interested parties.

Environment
Environmental risks need to be managed throughout the BAA Group as they have the potential to impact the BAA Group's reputation and its licence to operate and to grow. The BAA Group mitigates these risks at a number of levels, including environmental management systems and training programmes embedded with operations, clear environmental strategies, resource conservation initiatives, proactive and progressive influencing of third parties, stakeholder engagement and community relations programmes. The BAA Group works closely with a range of stakeholders to ensure that the Group reacts effectively to the challenges posed by the environmental agenda.

Commercial and financial risks
Capital projects
The BAA Group recognises that failure to control key capital project costs and delivery could damage its financial standing and reputation. The BAA Group mitigates this risk through adherence to a robust project process and by a system of assurance, consisting of project and programme reviews before approval and during construction. The process is continually improved incorporating lessons learnt and "best practice" distilled from knowledge sharing with other client programmes, expertise within its supply chain and guidance from professional bodies.

BAA (SH) Limited

Risk management *(continued)*

Commercial and financial risks *(continued)*

Changes in demand

The risk of unanticipated long-term changes in passenger demand for air travel could lead to misaligned operational capacity within the BAA Group. Since it is not possible to identify the timing or period of such an effect, the BAA Group carries out evaluations through a series of scenario planning exercises.

Industrial relations

The risk of industrial action by key staff that affects critical services, curtails operations and has an adverse financial and reputational impact on the BAA Group is recognised. The BAA Group has a range of formal national and local consultative bodies to discuss pay, employment conditions and business issues with the Trade Unions. The 2010 Pay negotiations started in December 2009. The BAA Group could also be exposed in the short-term to the effect of industrial action at key clients (i.e. airlines).

Treasury

The Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations on a centralised basis.

The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury related financial risks inherent in the BAA Group's business operations and funding. To achieve this, the BAA Group enters into interest rate swaps, index-linked swaps, cross-currency swaps and foreign exchange spot and forward/swap transactions to protect against interest rate and currency risks.

The primary treasury related financial risks faced by the Group are:

(a) Interest rates

The Group maintains a mix of fixed and floating rate debt. As at 31 December 2009, fixed rate debt after hedging with derivatives represented 83% of the Group's total external nominal debt.

The Group mitigates the risk of mismatch between aeronautical income and its airports' regulatory asset bases, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the issuance of inflation linked debt and derivatives.

(b) Foreign currency

The Group uses cross-currency swaps to hedge all interest and principal payments on its foreign currency debt. The Group uses foreign currency forward contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

(c) Funding and liquidity

The Group has established an investment grade financing platform for its airports. The platform supports bank term debt; bank revolving credit facilities including a revolving capital expenditure facility; bank liquidity facilities; and sterling and foreign currency capital markets issuance. All debt is secured and can be issued in both senior (A-/A-) and junior (BBB/BBB) format. Covenants are standardised wherever possible and are monitored on an ongoing basis with formal testing reported to the Board and Executive Committee.

Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The Group has positive cash flows before capital expenditure and maintains at least 12 months' headroom under the revolving capital expenditure facility. As at 31 December 2009, cash at bank was £240 million, undrawn headroom under bank credit facilities was £2,050 million; and undrawn headroom under bank liquidity facilities was £600 million.

The Group also has a £1.56 billion subordinated debt facility secured by a second lien over the Designated airports. The facility matures in April 2011.

(d) Counterparty credit

The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A- / A-1. The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with a credit rating below BBB+ / A.

By order of the Board

José Leo
Director

31 March 2010

BAA (SH) Limited

Report of the directors

The directors present their Annual report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of BAA (SH) Limited is as the holding company of BAA (SP) Limited. BAA (SP) Limited is the holding company for BAA (AH) Limited, owner of the designated airports (Heathrow and Stansted airports) and BAA Funding Limited, the bond issuer of the Security Group.

A review of the progress of the Group's business during the year, the key performance indicators, principal business risks and likely future developments are reported in the Business review on pages 2 to 12.

RESULTS AND DIVIDENDS

The loss after taxation for the financial year amounted to £649 million (2008: £1,434 million). No dividends were paid during the year (2008: £702 million). The statutory results for the year are set out on page 17.

DIRECTORS

The directors who served during the year and since the year end are as follows:

Jose Leo	
Frederick Maroudas	Appointed 31 July 2009
Luis Sánchez Salmerón	Resigned 31 July 2009

EMPLOYMENT POLICIES

The Group's employment policies are regularly reviewed and updated to ensure they remain effective. The Group's overall aim is to create and sustain a high performing organisation by building the commitment of its people.

The Group has defined a set of guiding principles to ensure fair recruitment and selection. The Group continues to aim to recruit, retain and develop high calibre people and has talent and succession management programmes for managerial roles.

The Group is committed to giving full and fair consideration to applicants for employment. Every applicant or employee will be treated equally whatever their race, colour, nationality, ethnic or national origin, sex, marital status, sexual orientation, religious belief, disability, age or community background. The Group actively encourages a diverse range of applicants and commits to fair treatment of all applicants. The Group's investment in learning and development is guided by senior line managers who ensure that the Group provides the learning opportunities to support the competencies that are seen as key to the Group's success.

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. The Group has further procedures to ensure that disabled colleagues are fairly treated and that their training and career development needs are carefully managed. Where employees have become disabled during the course of employment with the Group, the Group endeavours to ensure continuing employment through the arrangement of appropriate training.

Employee involvement and consultation is managed in a number of ways including employee surveys, team updates, briefings, roadshows, and an intranet. The Group also operate frameworks for consultation and is committed to managing people through change fairly.

Together these arrangements aim to provide a common awareness amongst employees of the financial and economic factors affecting the performance of their business. Bonuses paid to employees reflect the financial performance of the business. In addition, senior management participate in a long term incentive plan which also rewards based on BAA Group performance.

PAYMENT POLICIES

The Company complies with the UK Government's better payment practice code which states that responsible companies should:

- Agree payment terms at the outset of a transaction and adhere to them;
- Provide suppliers with clear guidance on payment procedures;
- Pay bills in accordance with any contract agreed or as required by law; and
- Advise suppliers without delay when invoices are contested and settle disputes quickly.

The Company's trade payables balance during the year was £nil (2008: £nil).

DONATIONS

The Group's charitable donations for the year amounted to £0.3 million (2008: £0.4 million). The main beneficiaries of charitable donations, the relevant amounts donated and the main activity of these beneficiaries are as follows:

Heathrow Travelcare	£152,000	Provides counselling or assistance to passengers and airport staff
Gatwick Airport Community Trust	£130,000	Independent charity directing funds back into the community that is affected by the airport and its continuing growth

The Group incurs expenditure which may be classified as political donations under the Political Parties, Elections and Referendums Act 2000. At the 2006 Annual General Meeting, BAA obtained a renewed shareholders' approval under this Act to commit up to a maximum of £60,000 of such expenditure (in aggregate) over the following four years. In the Group's view there was no expenditure in the year to 31 December 2009 that falls within this category.

BAA (SH) Limited

Report of the directors *(continued)*

PRINCIPAL RISKS AND UNCERTAINTIES
The Group actively manages all identified corporate risks. Details of the Group's risk management policies can be found on pages 11 and 12 in the Risk management section of the Business review.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Group's financial risk management objectives and polices, including hedging policies along with the Group's exposure to risk can be found on page 12 in the Risk management section of the Business review.

DIRECTORS' INDEMNITY
The Company's Articles of Association provide that, subject to the provisions of the Companies Act, but without prejudice to any protection from liability which might otherwise apply, every director of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour, or in which he is acquitted or in connection with any application in which relief is granted to him by the court for any negligence, default, breach of duty or breach of trust by him in relation to the Company or otherwise in connection with his duties or powers or office.

DISCLOSURE OF INFORMATION FOR AUDITORS
The directors are satisfied that the auditors are aware of all information relevant to the audit of the Group's Consolidated Financial Statements for the period ended 31 December 2009 and that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

AUDITORS
Pursuant to the provisions of section 485 of the Companies Act 2006, a resolution relating to the appointment or reappointment of the auditors will be put to the shareholders within the period set out in section 485.

By order of the Board

Shu Mei Ooi
Company Secretary

31 March 2010

Company registration number: 06458635

BAA (SH) Limited

Statement of directors' responsibilities in respect of the Annual report and the financial statements

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these consolidated financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent financial statements respectively; and
- Prepare the group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the BAA website, which includes information related to the Group. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418 of the Companies Act 2006, the Report of the Directors shall include a statement, in the case of each director in office at the date the report is approved, that:

a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 16 for the Group and page 57 for the parent company.

By order of the Board

Shu Mei Ooi
Company Secretary

31 March 2010

BAA (SH) Limited

Independent auditors' report to the members of BAA (SH) Limited

We have audited the Group financial statements of BAA (SH) Limited for the year ended 31 December 2009 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated cash flow statement, Accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Group financial statements.

Opinion
In our opinion the Group financial statements:

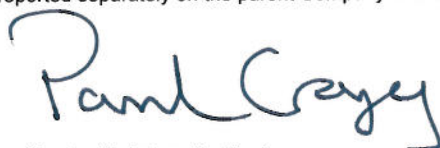
- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of the Group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and article 4 of the IAS regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent Company financial statements of BAA (SH) Limited for the year ended 31 December 2009.



Paul Cragg (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2010

BAA (SH) Limited

Consolidated income statement for the year ended 31 December 2009

	Note	**Year ended 31 December 2009** Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m	Restated[1] Year ended 31 December 2008 Before certain re-measurements £m	Certain re-measurements[2] £m	Total £m
Continuing operations							
Revenue	*1*	**1,978**	-	**1,978**	1,827	-	1,827
Operating costs	*2*	**(1,821)**	-	**(1,821)**	(1,570)	-	(1,570)
Other operating costs							
Fair value loss on investment properties	*10*	-	**(93)**	**(93)**	-	(147)	(147)
Operating profit/(loss)	*1*	**157**	**(93)**	**64**	257	(147)	110
Analysed as:							
Operating profit/(loss) before exceptional items		**429**	**(93)**	**336**	373	(147)	226
Exceptional items	*4*	**(272)**	**-**	**(272)**	(116)	-	(116)
Financing							
Finance income	*5a*	**151**	**-**	**151**	65	-	65
Finance costs	*5a*	**(788)**	**-**	**(788)**	(693)	-	(693)
Fair value (loss)/gain on financial instruments	*5b*	**-**	**(120)**	**(120)**	-	129	129
		(637)	**(120)**	**(757)**	(628)	129	(499)
Loss before tax		**(480)**	**(213)**	**(693)**	(371)	(18)	(389)
Taxation – ordinary	*6*	**114**	**50**	**164**	106	10	116
Taxation – exceptional[3]	*6*	**-**	**-**	**-**	(1,069)	-	(1,069)
Taxation		**114**	**50**	**164**	(963)	10	(953)
Loss for the year from continuing operations		**(366)**	**(163)**	**(529)**	(1,334)	(8)	(1,342)
Net loss from discontinued operations[4]	*7*	**(85)**	**(35)**	**(120)**	(65)	(27)	(92)
Consolidated loss for the year		**(451)**	**(198)**	**(649)**	(1,399)	(35)	(1,434)
Interim dividends paid during the year	*8*	-	-	-	(702)	-	(702)

[1] Comparatives restated for change in accounting for accretion on index-linked swaps (refer Accounting policies).
[2] Certain re-measurements consist of fair value gains and losses on investment property revaluations and disposals and the gains and losses arising on the re-measurement and disposal of financial instruments, together with the associated fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship, together with the related tax impact of these items.
[3] The exceptional tax charge relates to an exceptional tax item rather than the tax effect of the exceptional items. Exceptional tax charges for the year ended 31 December 2008 included £1,175 million due to the abolition of Industrial Buildings Allowance, of which £106 million related to discontinued operations.
[4] Includes the results of Gatwick as a result of its classification as discontinued operations.

BAA (SH) Limited

Consolidated statement of comprehensive income for the year ended 31 December 2009

	Note	**Year ended 31 December 2009 £m**	Year ended 31 December 2008 £m
Loss for the year		**(649)**	(1,434)
Other comprehensive income:			
Cash flow hedges			
Gains /(losses) taken to equity	27	**14**	(17)
Transferred to income statement	27	**208**	(313)
Indexation of operating land	19/27	**3**	3
Other comprehensive income for the financial year net of tax		**225**	(327)
Total comprehensive loss for the year		**(424)**	(1,761)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27 'Tax relating to components of comprehensive income'.

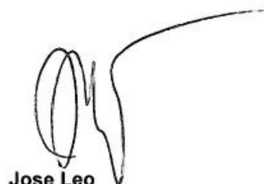
BAA (SH) Limited

Consolidated statement of financial position as at 31 December 2009

	Note	31 December 2009 £m	31 December 2008[1] £m
Assets			
Non-current assets			
Property, plant and equipment	9	**9,940**	9,687
Investment properties	10	**2,084**	2,153
Intangible assets	11	**55**	65
Derivative financial instruments	17	**683**	961
Trade and other receivables	13	**49**	50
		12,811	12,916
Current assets			
Inventories	12	**5**	5
Trade and other receivables	13	**307**	410
Derivative financial instruments	17	**-**	7
Restricted cash	14	**143**	-
Cash and cash equivalents	15	**240**	167
		695	589
Assets classified as held-for-sale	22	**-**	1,865
Total assets		**13,506**	15,370
Liabilities			
Non-current liabilities			
Borrowings	16	**(10,434)**	(10,275)
Derivative financial instruments	17	**(338)**	(666)
Deferred income tax liabilities	19	**(2,027)**	(2,116)
Provisions	20	**(18)**	(109)
Trade and other payables	21	**(5)**	(6)
		(12,822)	(13,172)
Current liabilities			
Borrowings	16	**(195)**	(222)
Provisions	20	**(322)**	(46)
Current income tax liabilities		**(29)**	(9)
Trade and other payables	21	**(336)**	(459)
		(882)	(736)
Liabilities associated with assets classified as held-for-sale	22	**-**	(1,519)
Total liabilities		**(13,704)**	(15,427)
Net liabilities		**(198)**	(57)
Equity			
Capital and reserves			
Ordinary shares	23	**2,792**	2,509
Revaluation reserve	24	**365**	365
Merger reserve	25	**(1,771)**	(2,865)
Fair value reserve	26	**(108)**	(330)
Retained earnings	28	**(1,476)**	264
Total equity		**(198)**	(57)

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

The financial statements set out on pages 17 to 55 were approved by the Board of directors and authorised for issue on 31 March 2010 and signed on behalf of the Board.



Jose Leo
Director

Frederick Maroudas
Director

BAA (SH) Limited

Consolidated statement of changes in equity for the year ended 31December 2009

	Note	Attributable to owners of the Company					
		Share capital £m	Revaluation reserve[1] £m	Merger reserve £m	Fair value reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2008		2,509	365	(2,865)	-	2,397	2,406
Comprehensive income:							
Loss for the year		-	-	-	-	(1,434)	(1,434)
Other comprehensive income:							
Profit / (loss) on re-measurement of the following:							
Cash flow hedges net of tax	*27*	-	-	-	(330)	-	(330)
Indexation of operating land	*19/27*	-	-	-	-	3	3
Total comprehensive income		-	-	-	(330)	(1,431)	(1,761)
Transactions with owners:							
Dividends paid during the year	*8*	-	-	-	-	(702)	(702)
Total transactions with owners		-	-	-	-	(702)	(702)
Balance at 1 January 2009		2,509	365	(2,865)	(330)	264	(57)
Comprehensive income:							
Loss for the year		-	-	-	-	(649)	(649)
Other comprehensive income:							
Profit / (loss) on re-measurement of the following:							
Cash flow hedges net of tax	27	-	-	-	222	-	222
Transferred from merger reserve to retained earnings	25/28	-	-	1,094	-	(1,094)	-
Indexation of operating land	19/27	-	-	-	-	3	3
Total comprehensive income		**-**	**-**	**1,094**	**222**	**(1,740)**	**(424)**
Transactions with owners:							
Proceeds from shares issued	23	283	-	-	-	-	283
Total transactions with owners		**283**	**-**	**-**	**-**	**-**	**283**
Balance at 31 December 2009		**2,792**	**365**	**(1,771)**	**(108)**	**(1,476)**	**(198)**

[1] The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

BAA (SH) Limited

Consolidated cash flow statement for the year ended 31 December 2009

	Note	**Year ended 31 December 2009 £m**	Year ended 31 December 2008 £m
Operating activities			
Cash generated from continuing operations	*30*	**851**	638
Taxation - group relief received		**50**	31
Cash generated from discontinued operations		**132**	126
Net cash from operating activities		**1,033**	795
Investing activities			
Purchase of:			
Property, plant and equipment		**(836)**	(641)
Investment properties		**(24)**	(250)
Intangible assets		**(16)**	(28)
Acquisition of Heathrow Express Operating Company Limited		**-**	(4)
Investing activities of discontinued operations and disposal proceeds		**1,234**	(114)
Net cash provided by/(used in) investing activities		**358**	(1,037)
Financing activities			
Proceeds from issue of ordinary shares		**283**	-
Proceeds from issuing bonds		**925**	-
(Repayment)/drawdown of refinancing facility		**(1,067)**	3,350
Drawdown of capital expenditure facility		**450**	250
Drawdown of EIB facility		**-**	435
Repayment of EIB facility		**(43)**	(18)
Interest paid		**(487)**	(80)
Interest received		**-**	1
Prepayment of derivative interest		**(114)**	-
Cancellation of derivatives		**(43)**	-
Payment of bond/loan arrangement costs		**(1)**	(15)
Increase/(decrease) in amounts owed to group undertakings		**-**	(3,616)
Restricted cash	*14*	**(143)**	-
Financing activities of discontinued operations		**(1,093)**	117
Net cash (used in)/provided by financing activities		**(1,333)**	424
Net increase in cash and cash equivalents		**58**	182
Cash and cash equivalents at beginning of year		**182**	-
Cash and cash equivalents at end of year	*15*	**240**	182

Notes to the Financial Statements

Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Primary financial statements format
The IFRS primary financial statements are presented in accordance with IAS 1 'Presentation of Financial Statements'.

A columnar approach has been adopted in the income statement and the impact of three principal groups of items is shown in a separate column ('certain re-measurements'). This allows the presentation of the performance of the business before these specific fair value gains and losses. These items are:
i Fair value gains and losses on investment property revaluations and disposals;
ii Derivative financial instruments and the fair value gains and losses on any underlying hedged items that are part of a fair value hedging relationship;
iii The associated tax impacts of the items in (i) and (ii) above.

Basis of accounting
The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and under the historical cost convention, except for investment properties, derivative financial instruments and financial liabilities that qualify as hedged items under a fair value hedge accounting system. These exceptions to the historic cost convention have been measured at fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the Companies Act 2006.

Going concern
The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Consequently the directors have reviewed the cash flow projections of the Group taking into account:

- the forecast revenue and operating cash flows from the underlying operations;
- the forecast level of capital expenditure; and
- the overall Group liquidity position, including the remaining committed and uncommitted facilities available to it, its scheduled debt maturities, its forecast financial ratios and ability to access the debt markets (Note 16 'Borrowings').

As a result of the review, having made appropriate enquiries of management, the directors have a reasonable expectation that sufficient funds will be available to meet the Group's funding requirement for the next twelve months from the statement of financial position signing date.

Changes in accounting policy and disclosures

(a) Changes in accounting policy

Accretion on index-linked financial instruments
Following a £235 million index-linked bond issue in 2009, the Group has changed the way accretion on index-linked swaps is presented in the income statement. Accretion on index-linked swaps was previously included within the fair value gain or loss on financial instruments. Accounting standards for index-linked bonds require accretion to be classified as a part of their finance cost. Management considers that classifying accretion for both instruments consistently through finance costs will improve presentation of the Group's income statement. Comparatives have been restated to present the results on a consistent basis. The new treatment resulted in a £42 million reclassification from 'Fair value (losses)/gains on financial instruments' to 'Net finance costs' in 2008. The current year result is a £16 million gain recognised in the Group's 'Net finance costs'.

(b) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS's as of 1 January 2009:

- IFRS 7 'Financial instruments - Disclosures' (amendment) – effective 1 January 2009.
  The amendment required enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosure, there is no impact on the income statement for the year.

- IAS 1 (revised), 'Presentation of financial statements' - effective 1 January 2009.
  The revised standard prohibits the presentation of items of income and expenses in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owners changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on the income statement for the year.

- IFRS 2 (amendment), 'Share-based payment' - effective 1 January 2009, deals with vesting conditions and cancellations.
  It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

- IFRS 8, 'Operating Segments' - effective from 1 January 2009.
  Requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14, 'Segmental Reporting'. As the new guidance only impacts presentation aspects, there is no impact on the income statement for the year.

- IFRIC 12, 'Service Concession Arrangements' - effective from 1 January 2009.
  Addresses the accounting by operators of public-private service concession arrangements. The group has assessed the impact of this interpretation and has concluded that it does not have a significant impact on the Group's financial statements.

Accounting policies *(continued)*

Changes in accounting policy and disclosures *(continued)*

(c) Standards, amendment and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17, 'Distributions of non-cash assets to owners' - effective on or after 1 July 2009.
  The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRC 17 from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IAS 27 (revised), 'Consolidated and separate financial statements' - effective from 1 July 2009.
  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (revised), 'Business combinations' - effective from 1 July 2009.
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), 'Intangible assets'.
  The Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not have a material impact on the Group's financial statements.

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'.
  The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The Group will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements'.
  The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other asset for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- IFRS 2 (amendments), 'Group cash-settled and share based payment transactions'.
  In addition to incorporating IFRIC 8, 'Scope of IFRS 2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' - effective on or after 1 July 2010.
  This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 of IAS 39. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss. It is not expected to have a material impact on the Group financial statements.

- IFRS 9, 'Financial instruments'.
  The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The IASB sees this first instalment on classification and measurement of financial assets as a stepping stone to future improvements in the financial reporting of financial instruments and is committed to completing its work on classification and measurement of financial instruments expeditiously. The new guidance is not expected to have a material impact on the Group's financial statements.

Business combinations
Basis of consolidation
The Group financial statements consolidate the financial statements of BAA (SH) Limited and all its subsidiaries.

The ultimate UK parent undertaking of BAA (SH) Limited and its subsidiaries was before and remains after the group reconstruction, FGP Topco Limited.

During 2008, as part of the Group refinancing the company acquired BAA (SP) Limited, the security Group that owns the Designated Airports comprising of the UK regulated airports of Heathrow and Stansted. It also operates the Heathrow Express rail service between Heathrow and Paddington, London. BAA (SP) Limited is the holding company of BAA Funding Limited, which is the bond issuer for the security group. In addition, £1.6 billion of subordinated debt, previously held at BAA Limited, was transferred to BAA (SH) Limited and on-lent to BAA (SP) Limited in the form of a debenture.

Notes to the Financial Statements

Accounting policies *(continued)*

Business combinations *(continued)*
The group reconstruction outlined above is outside of the scope of IFRS 3, Business Combinations, as the combining entities are both before and after the reconstruction ultimately controlled by the same party (FGP Topco Limited) and control was not transitory. Therefore in accordance with IAS 8, accounting policies, changes in accounting estimates and errors, the directors have developed an appropriate accounting policy for common control transactions. The Group financial statements consolidate the financial statements of the Company and all its subsidiaries, using the merger method of accounting (also known as 'predecessor accounting'). The policies adopted and explained below are comparable to those under UK GAAP.

The predecessor accounting principles applied are as follows:

- The acquired entities results are included in the groups consolidated financial statement as if the entities had always been combined and comparative amounts prepared accordingly.
- The group does not restate assets and liabilities to their fair values. Instead, the group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting, the differences arising on consolidation are included in a merger reserve.

Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries by the Group is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed to or from the Group.

Inter-group balances and transactions of the continuing operations are eliminated during the consolidation process. Transactions between continuing and discontinued operations that are expected to continue post sale are not eliminated from continuing operations in order to present the continuing operations on a basis consistent with the underlying trading.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Segment reporting
For the purposes of Group reporting, the reportable segments are consistent with those operating segments reported upon on a monthly basis to the chief operating decision-maker. The chief operating decision maker is considered to have responsibility for allocating resources and assessing performance of the operating segments has been identified as the Board.

The Group's operating segments are organised according to their regulatory environment, type of operation and geographical location. The operating segments are primarily the individual airports, and Heathrow Express ('HEX') which are organised and managed separately on the basis of the above operating environment. As such, the following operating segments are reported to the Board on a monthly basis:

- Designated group (price regulated airports of Heathrow and Stansted and rail operations HEX);
- Discontinued operations (Gatwick).

Revenue
Revenue is recognised in accordance with IAS 18 'Revenue' and comprises:

Aeronautical
- Passenger charges based on the number of departing passengers
- Aircraft landing charges levied according to weight on landing
- Aircraft parking charges based on a combination of weight and time parked
- Other traffic charges

Retail
- Concession fee based upon turnover certificates supplied by concessionaires

Other
- Property letting sales, recognised on a straight-line basis over the term of the rental period
- Proceeds from the sale of trading properties, recognised on the unconditional completion of the sale
- Usage charges made for operational systems (e.g. check-in-desks), recognised as each service period is provided
- Other charges levied for passenger and baggage operation when these services are rendered
- Other invoiced sales, recognised on the performance of the service
- Turnover from ticket sales, recognised at the time of travel

Government grants
On occasion, the Group may receive grants to provide financial incentives to improve airport infrastructure considered to be in the best interest of the public. No such grants have been received in 2009. Grants received are treated as deferred income until such time as the terms of the grant are satisfied at which time it is recognised as revenue in the period.

Notes to the Financial Statements

Accounting policies *(continued)*

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the asset is complete and ready for use. Such borrowing costs are capitalised once planning permission has been obtained and/or where projects are in the early stages of planning but the directors are satisfied that the necessary consents will be received. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

Exceptional items
The Group presents, on the face of the income statement, disclosure of exceptional items. Exceptional items are material items of income or expense that, because of the unusual nature and expected infrequency of the events giving rise to them, merit separate presentation to allow an understanding of the Group's financial performance.

Such events may include gains or losses on the disposal of businesses or assets that do not qualify as discontinued operations, major reorganisation of businesses, closure or mothballing of terminals and costs incurred in bringing new airport terminal complexes and airfields to operational readiness that are not able to be capitalised as part of the project. Additional details of exceptional items are provided as and when required as set out in Note 4 'Exceptional items'.

Assets classified as held-for-sale
Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale, and the sale is expected to be completed within one year of the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Discontinued operations
Discontinued operations consist of business segments and other non-core assets that have either been sold during the year or are classified as held-for-sale at year end. The financial performance and cash flows of discontinued operations are separately reported within Note 7 'Discontinued operations'.

Intangible assets
Internally-generated intangible assets
Development expenditure incurred in respect of individual projects is capitalised when the future economic benefit of the project is probable and is recognised only if all of the following conditions are met:

- An intangible asset is created that can be separately identified
- It is probable that the intangible asset created will generate future economic benefits
- The development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and website projects and these are amortised on a straight-line basis over their useful lives of three to seven years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at fair value at the statement of financial position date, as determined at the interim and full-year reporting dates by the directors and by external valuers at least once every five years. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

Gains or losses on disposal of an investment property are recognised in the income statement on the unconditional completion of the sale.

Property, plant and equipment
Operational assets
Terminal complexes, airfield assets, plant and equipment, rail assets, and other land and buildings are stated at cost less accumulated depreciation and impairment losses.

Assets in the course of construction are stated at cost less provision for impairment. Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete. Where appropriate, cost includes borrowing costs capitalised, own labour costs of construction-related project management, and directly attributable overheads. Projects that are in the early stages of planning are capitalised where the directors are satisfied that it is probable the necessary consents will be received and the projects will be developed to achieve a successful delivery of an asset such that future commercial returns will flow to the Group. The Group reviews these projects on a regular basis, and at least every six months, to determine whether events or circumstances have arisen that may indicate that the carrying amount of the asset may not be recoverable, at which point the asset would be assessed for impairment.

Depreciation
Depreciation is provided on operational assets, other than land, to write off the cost of the assets less estimated residual value, by equal instalments over their expected useful lives as set out below:

Accounting policies *(continued)*

Property, plant and equipment *(continued)*

Terminal complexes	**Fixed asset lives**
Terminal building, pier and satellite structures	20–60 years
Terminal fixtures and fittings	5–20 years
Airport plant and equipment	
Baggage systems	15 years
Screening equipment	7 years
Lifts, escalators and travelators	20 years
Other plant and equipment, including runway lighting and building plant	5–20 years
Tunnels, bridges and subways	50–100 years
Airport transit systems	
Rolling stock	20 years
Track	50 years
Airfields	
Runway surfaces	10–15 years
Runway bases	100 years
Taxiways and aprons	50 years
Rail	
Railways	
Rolling stock	8–40 years
Tunnels	100 years
Track metalwork	5–10 years
Track bases	50 years
Signals and electrification work	40 years
Plant and equipment	
Motor vehicles	4–8 years
Office equipment	5–10 years
Computer equipment	4–5 years
Computer software	3–7 years
Other land and buildings	
Short leasehold properties	Over period of lease

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each reporting period.

Impairment of assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the asset does not generate cash flows independent of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value, on a straight-line basis over its remaining useful life.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Accounting policies *(continued)*

Deferred income
Contractual income is treated as deferred income and released to the income statement over the life of the contract.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts, where offset is allowed.

Restricted cash
Cash that can only be used for a specific purpose or where access is restricted is classified as restricted cash.

Financial instruments
Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less provision for impairment.

Investments
On initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through the income statment, directly attributable transaction costs. After initial recognition, investments that are classified as 'held-for-trading' and 'available-for-sale' are measured at fair value. Fair value gains or losses on investments held-for-trading are recognised in the income statement. Fair value gains or losses on available-for-sale investments are recognised in a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative fair value gain or loss previously reported in equity is included in the income statement. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indication that the security is impaired. If impairment is indicated, the cumulative fair value gain or loss previously reported in equity is included in the income statement.

Assets classified as 'loans and receivables' or 'held-to-maturity' are recognised in the statement of financial position at their amortised cost, using the effective interest rate method, less any provision for impairment.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are carried at amortised cost using the effective interest rate method. Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity are classified as 'held-to-maturity' and are carried at amortised cost using the effective interest rate method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are de-recognised or impaired, as well as through the amortisation process.

For investments that are traded in an active market, fair value is determined by reference to quoted market bid prices at the reporting date. For investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows, or by reference to the current market value of similar investments.

Purchases and sales of investments are recognised on trade-date being the date on which the Group commits to purchase or sell the asset.

Investments are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the asset disposal, and disposal is expected to be completed within one year of the date of classification. Assets classified as held-for-sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless part of a fair value hedge relationship. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings being novated or cancelled and re-issued, with a substantial modification of the terms, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, with any resulting gain or loss recognised in the income statement.

Bonds issue costs
Prepaid fees in relation to the future issuance of debt are held on the statement of financial position on the basis that such issuance is considered probable. If issues do not occur, or are deemed not to be probable, such fees are recognised in the income statement.

Trade and other payables
Trade and other payables are non interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Accounting policies *(continued)*

Derivative financial instruments and hedging activities *(continued)*
The Group designates certain derivatives as either:

- fair value hedges, where they hedge exposure to changes in the fair value of the hedged asset or liability; or
- cash flow hedges, where they hedge exposure to variability in cash flows that are either attributable to a particular risk associated with any changes in the fair value of the hedged asset, liability or forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability where it is less than 12 months. Derivatives that do not qualify for hedge accounting and which are not held for trading purposes are classified based on their maturity.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging interest rate risk on borrowings.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the income statement over the period to maturity.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. This accounting policy also relates to the scenario whereby the forecast transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives at fair value through the income statement
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When derivatives are designated in a fair value hedge or a cash flow hedge of interest rate risk, the net interest payable or receivable on those derivatives is recorded net of the interest on the underlying hedged item in the income statement. When derivatives are not in a hedge relationship the fair value changes on these derivatives are recognised within fair value gains/(losses) on financial instruments in the income statement. The interest payable and receivable on those derivatives are recorded at their gross amount in finance costs and finance income in the income statement.

Current and deferred income tax
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred income taxation is not provided on the initial recognition of an asset or liability in a transaction, other than a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantially enacted, by the reporting date, and are expected to apply when the related deferred tax asset or liability is realised or settled.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Shared Services Agreement
All employees of the Group's airports are employed directly by BAA Airports Limited which also acts as the provider of corporate and administrative services to the Group. BAA Airports Limited is the administrator and sponsor of the related defined benefit pension plans and grants all employee benefits.

On 18 August 2008, the airports entered into a Shared Services Agreement ('SSA') with BAA Airports Limited by which the latter became the shared services provider for the Group providing the airports with operational staff and corporate services.

Notes to the Financial Statements

Accounting policies *(continued)*

Shared Service Agreement *(continued)*

Operational staff

BAA Airports Limited charges the airports for the provision of services in relation to staff costs, including wages and salaries, superannuation costs, medical costs and redundancy payments, as well as any other of its associated expenses properly incurred by the employees of BAA Airports Limited in providing the services. These costs include the cost of purchase of any shares in relation to share options granted and any hedging costs related to employee share options. All of the amounts included in the abovementioned costs are settled in cash except for superannuation costs or costs related to hedging of share options, which are only settled when the cash outflow is requested by BAA Airports Limited.

Corporate and centralised services

BAA Airports Limited also provides centralised airport support including IT applications, general business services, procurement and financial accounting. These services are charged in accordance with the SSA with a mark-up of 7.5% except for IT applications where full costs are recharged to the airports.

Pension costs

Under the SSA the current period service cost for the BAA Airports Limited pension schemes are recharged to the Group's airports and Heathrow Express Operating Company Limited (HEX) on the basis of their pensionable pay base. This charge is included within ordinary staff pension costs (refer Note 2 'Operating costs').

Cash contributions are made directly by the Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited and the related receivable from BAA Airports Limited, net of the current service cost charges to date, is recorded within Debtors – Amounts owed by group undertakings – pensions.

In addition, each airport and HEX also have a legal obligation since August 2008 to fund their share of the BAA Airports Limited pension deficit and Unfunded Retirement Benefit Scheme and Post Retirement Medical Benefits ('UURBS') (pension related liabilities) under the SSA. These provisions are based on the Group's share of the actuarial deficit. The share of the deficit has been allocated on the basis of pensionable salaries and recorded as an exceptional item due to its unusual nature. These provisions are recorded as Provisions – Pensions, and will only be settled when the cash outflows are requested by BAA Airports Limited.

Dividend distribution

A dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the shareholder's right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in equity within the fair value reserve.

Notes to the Financial Statements

Significant accounting judgements and estimates

In applying the Group's accounting policies management have made estimates and judgements in a number of key areas. Actual results may, however, differ from the estimates calculated and management believe that the following areas present the greatest level of uncertainty.

Capitalisation of costs incurred prior to planning permission being obtained
The White Paper 'The Future of Air Transport' ('the White Paper'), published in 2003, sets out the Government's policy for the development of airport capacity in the UK. It indicated a second runway at Stansted ('SG2') as the preferred location for the first new runway in the South East of England with a third runway at Heathrow ('R3') as the preferred location for the second new runway.

The Government published a progress report on the implementation of the White Paper in 2006 when it re-affirmed support for SG2. In 2007 BAA published its decision on the airport development proposal and submitted its planning application for the development of SG2 to Uttlesford District Council on 11 March 2008.

The planning inquiry for SG2 was scheduled to commence on 15 April 2009 but it has been delayed by the Government pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation on the supply of UK airport services by BAA. Whilst BAA has been successful in its appeal against the CC's decision, Stansted's future ownership is yet to be clarified.

As at 31 December 2009, the costs capitalised in respect of the development of SG2 are £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. Despite the delays in the start date for the inquiry, BAA believes that it is highly probable given overall Government policy and expected increases in passenger numbers over time, that planning permission for a second runway at Stansted will be obtained and the project will be developed such that future benefits will flow to the Group. If Government policy was to change such that the planning consents for the development of SG2 become less likely, elements of the costs currently capitalised may need to be written off through the income statement.

In 2006, the Government re-affirmed its support for a third runway at Heathrow being the South East of England's second new runway to be developed. The Department for Transport (DfT) released a report in 2007 entitled 'Adding Capacity at Heathrow Airport' with further consultation to follow on the development. The resulting consultation reported on noise and air quality and surface access implications and had invited comments on proposals for making better use of the existing two runways until R3 was developed. A further consultation document, the 'Impact Assessment' was prepared by the DfT which found that even after accounting for the costs of climate change, development of a three-runway Heathrow would bring benefits if potential capacity were fully realised. In January 2009, the UK Government announced that it was satisfied that the conditions for the development of R3 set out in the White Paper could be met thereby further confirming the Government's support for a third runway. The Government at this time also set a target of 2005 levels for UK aviation emissions to be met by 2050. The Committee on Climate Change, an independent body of experts advising the Government on how the UK can make the transition to a low-carbon economy, reported during December 2009 that the development of a third runway at Heathrow is not incompatible with meeting the year 2050 target for UK aviation emissions to reduce back to 2005 levels.

As at 31 December 2009, approximately £10 million in preliminary costs have been capitalised in relation to the development of the third runway at Heathrow relating to planning and development costs, including internal time and advisory fees with no purchases of domestic properties or land within the proposed boundaries having taken place to date. BAA believes that it is highly probable, given overall Government policy, DfT announcements regarding the development of R3, airline community support and the expected increases in passenger numbers over time, that planning permission for a third runway at Heathrow will be obtained.

Investment properties
Investment properties were valued at a fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors and Strutt and Parker, Chartered Surveyors. The valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. Approximately 70% percent of the investment properties comprise car parks and airside assets at the Group's airports and these are considered less vulnerable to market volatility than the overall market. Given recent declines in property prices, independent valuations were obtained for 100 percent of the investment properties.

Taxation
Provisions for tax contingencies require management to make judgements and estimates in relation to tax issues and exposures. Amounts provided are based on management's interpretation of country specific tax law and the likelihood of settlement. Tax benefits are not recognised unless the tax positions are probable of being sustained. In arriving at this position, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. All such provisions are included in current tax liabilities.

Hedge accounting
From 1 October 2008, certain interest rate swaps were designated in a cash flow hedge relationship to hedge the exposure to variability in cash flows of existing liabilities and forecast transactions, based on management expectation that it is highly probable these derivatives will match future sterling funding issuances which will occur to refinance existing debt. As at 31 December 2009, £98 million of fair value losses (2008: £301 million) on these derivatives, have been deferred into the cash flow hedge reserve.

Management assesses on a regular basis the extent to which terms of future financing are expected to match the profiles of the hedges, and adjusts the accounting accordingly. Any such change in the expected financing may require the recycling of the cash flow hedge reserve through the income statement.

Fair value of derivative financial instruments
The fair value of derivative financial instruments is determined by using valuation techniques. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The valuation technique used by the Group is a discounted cash flow methodology.

1 Segment information

Management has determined the reportable segments of the business based on those contained within the monthly reports reviewed and utilised by the Board for allocating resources and assessing performance. These segments are organised according to their regulatory environment, type of operation and geographic location.

The 'Other operations' segment consists of corporate activities and other commercial operations.

The performance of the above segments is measured on a revenue and EBITDA basis, before certain re-measurements, and both pre and post exceptional items.

The reportable segments derive their revenues from a number of sources including aeronautical, retail, property and facilities (including property income and utilities income), and other (includes railway income) products and services and this information is also provided to the Board on a monthly basis.

During the year the Group formally disposed of Gatwick. The performance of Gatwick is distinguished from the performance of continuing Group operations in the annual reports through classification as discontinued operations.

Table (a) details total revenue from external customers to 31 December 2009 and is broken down into aeronautical, retail, property and facilities, and other in respect of the reportable segments. No information in relation to inter-segmental revenue is disclosed as it is not considered material. Also detailed within table (a) are EBITDA on a pre and post exceptional basis.

Table (b) details comparative information to table (a) for the year ended 31 December 2008.

Table (c) details depreciation and amortisation, fair value adjustments and profit and loss on disposals by reportable segment. The fair value adjustment information is not provided to the Board by reportable segment, but is included in this note to the accounts as additional information.

Table (d) details asset, liability and capital expenditure information by reportable segment. The assets and liabilities information by segment is not provided to the Board.

Revenue and non-current asset information by geographical segment is detailed in (e).

Segment information for the year ended 31 December 2009 is as follows:

Table (a)	**Segment revenue**					**EBITDA**		
	Aero-nautical £m	**Retail £m**	**Property & facilities £m**	**Other £m**	**Total revenue from external customers £m**	**Pre exceptional items £m**	**Exceptional items[1] £m**	**Post exceptional items £m**
Designated group	**1,093**	**440**	**259**	**186**	**1,978**	**885**	**(217)**	**668**
Heathrow	961	352	240	91	1,644	744	(181)	563
Heathrow Express	-	-	-	91	91	39	-	39
Stansted	132	88	19	4	243	102	(36)	66
Other operations	-	-	-	-	-	-	-	-
Total	**1,093**	**440**	**259**	**186**	**1,978**	**885**	**(217)**	**668**
Reconciliation of statutory information								
Unallocated income and expenses								
Depreciation and amortisation								**(511)**
Operating profit (before certain re-measurements)								**157**
Fair value loss on investment properties (certain re-measurements)								**(93)**
Finance income								**151**
Finance costs								**(788)**
Fair value loss on financial instruments (certain re-measurements)								**(120)**
Loss before tax								**(693)**
Taxation – ordinary								**114**
Taxation – ordinary (certain re-measurements)								**50**
Taxation								**164**
Loss for the year – continuing operations								**(529)**
Net loss from discontinued operations[2]								**(120)**
Consolidated loss for the year								**(649)**

[1] Exceptional items for statutory reporting purposes includes £55 million accelerated depreciation as compared to £nil for segmental reporting.
[2] Includes the results of Gatwick.

Revenues of approximately £530 million (2008: £576 million) are derived from a single external customer of which £52 million relates to discontinued operations (2008: £62 million). This revenue is included in the Heathrow segment above.

BAA (SH) Limited

Notes to the Financial Statements

1 Segment information *(continued)*

Segment information for the year ended 31 December 2008 is as follows:

Table (b)	Segment revenue restated[1]					EBITDA restated[1]		
	Aero-nautical £m	Retail £m	Property & facilities £m	Other £m	Total revenue from external customers £m	Pre exceptional items £m	Exceptional items[2] £m	Post exceptional items £m
Designated group	980	419	240	188	1,827	729	(10)	719
Heathrow	835	328	221	98	1,482	576	(7)	569
Heathrow Express	-	-	-	86	86	36	-	36
Stansted	145	91	19	4	259	117	(3)	114
Other operations	-	-	-	-	-	5	-	5
Total	980	419	240	188	1,827	734	(10)	724
Reconciliation to statutory information								
Unallocated income and expenses								
Depreciation and amortisation								(467)
Operating profit (before certain re-measurements)								257
Fair value loss on investment properties (certain re-measurements)								(147)
Finance income								65
Finance costs[1]								(693)
Fair value gain on financial instruments (certain re-measurements)[1]								129
Loss before tax								(389)
Taxation – ordinary								106
Taxation – ordinary (certain re-measurements)								10
Taxation – exceptional								(1,069)
Taxation								(953)
Loss for the year – continuing operations								(1,342)
Net loss from discontinued operations[3]								(92)
Consolidated loss for the year								(1,434)

[1] Information restated to reflect the reclassification of the accretion on index-linked swaps from fair value loss on financial instruments to finance costs (Note 5 'Financing').
[2] Exceptional items for statutory reporting purposes is £116 million (refer to Note 4 'Exceptional items') as compared to £10 million for segmental reporting for a credit in relation to provisions that are no longer required and pension costs.
[3] Includes the results of Gatwick.

Notes to the Financial Statements

1 Segment information *(continued)*

Table (c)	**31 December 2009**			31 December 2008		
	Depreciation & amortisation[1] £m	**Fair value losses[2] £m**	**Loss on disposal £m**	Depreciation & amortisation[1] £m	Fair value losses[2] £m	Loss on disposal £m
Designated group	**(511)**	**(93)**	**-**	(467)	(147)	(1)
Heathrow	**(431)**	**(52)**	**-**	(397)	(59)	(1)
Heathrow Express	**(41)**	**-**	**-**	(37)	-	-
Stansted	**(39)**	**(41)**	**-**	(33)	(88)	-
Continuing operations	**(511)**	**(93)**	**-**	(467)	(147)	(1)
Discontinued operations	**-**	**(49)**	**(161)**	(47)	(43)	-
Total Group	**(511)**	**(142)**	**(161)**	(514)	(190)	(1)

[1] Includes intangible amortisation charge of £27 million (2008: £27 million) and for Heathrow includes exceptional depreciation of £55 million (2008: £84 million), refer to Note 4 'Exceptional items'.
[2] Reflects fair value gains and losses on investment properties only.

Table (d)	**31 December 2009**			31 December 2008		
	Assets[1] £m	**Liabilities £m**	**Capital expenditure £m**	Assets[1] £m	Liabilities £m	Capital expenditure £m
Designated group	**12,363**	**(642)**	**773**	12,222	(551)	892
Heathrow	**9,750**	**(564)**	**707**	9,539	(499)	779
Heathrow Express	**1,118**	**(8)**	**14**	1,154	(6)	14
Stansted	**1,495**	**(70)**	**52**	1,529	(46)	99
Other operations	**1**	**(39)**	-	7	(6)	-
Classified as held-for-sale[2]	**-**	**-**	-	1,850	(88)	124
Total operations	**12,364**	**(681)**	**773**	14,079	(645)	1,016
Unallocated assets and liabilities:						
Cash and borrowings[3]	**383**	**(10,629)**		182	(11,539)	
Derivative financial instruments	**683**	**(338)**		968	(666)	
Taxation[4]	**-**	**(2,056)**		38	(2,514)	
Amounts owed from/(to) group undertakings	**76**	**-**		103	(63)	
Total Group	**13,506**	**(13,704)**	**773**	15,370	(15,427)	1,016

[1] Segment assets include primarily airport runways and facilities.
[2] Includes Gatwick capital expenditure and excludes borrowings of £nil (2008: £1,042 million) and cash of £nil (2008: £15 million) and tax charges of £nil (2008: £389 million).
[3] Includes Gatwick cash of £nil (2008: £15 million) and borrowings of £nil (2008: £1,042 million).
[4] Includes Gatwick taxation of £nil (2008: £389 million).

(e) Revenue and non-current asset information by geographical segment
BAA (SH) Limited is domiciled in the UK. All revenue from external customers comes from the UK which for the year ended 31 December 2009 is £1,978 million (2008: £1,827 million). The breakdown of the major components of total revenue from external customers is shown in tables (a) and (b) above.

The total of non-current assets excluding financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts held in the UK is £12,128 million (2008: £11,955 million). There are no non-current assets held outside the UK.

Notes to the Financial Statements

2 Operating costs – continuing operations

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Operating costs (including exceptional items) include the following:		
Employment costs[2]		
Wages and salaries	**233**	252
Social security	**20**	21
Pensions	**18**	38
Share-based payments	**4**	3
Contract and agency staff	**7**	16
Other staff related:		
Share of Group's change in pension deficit	**218**	13
Other	**9**	18
	509	361
Depreciation, amortisation and impairment charges		
Depreciation of property, plant and equipment	**484**	440
Amortisation of intangible assets		
Software	**27**	27
	511	467
Other operating costs		
Loss on sale of: Property, plant and equipment	**-**	1
Retail expenditure	**35**	22
Maintenance and cleaning	**147**	141
Rent and rates	**129**	106
Utilities	**126**	94
Police	**39**	42
Air navigation charges	**65**	47
General expenses	**132**	155
Intra-group charges/other	**147**	167
Own work capitalised[3]	**(19)**	(33)
Total operating costs	**1,821**	1,570
Analysed as:		
Adjusted operating costs	**1,549**	1,454
Exceptional costs	**272**	116
	1,821	1,570

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Employment costs include recharges from BAA Airports Limited for employee services to the Group. Refer to Shared Services Agreement in the Accounting policies.
[3] Own work capitalised includes £4 million (2008: £10 million) in relation to staff costs including contract and agency staff.

Exceptional items included within operating costs are analysed in Note 4 'Exceptional items'.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
The aforementioned charges include:		
Rentals under operating leases		
Plant and machinery	**33**	30
Other	**32**	25
	65	55
Property lease and sub lease charges		
Minimum lease payments	**32**	25

Property operating costs include £10 million (2008: £9 million) in respect of coaching and management fees relating to the provision of car parking facilities for airline and other airport workers. This amount is recovered through the sale of airport passes and is included within property and facilities income (Note 1(a) and 1(b) 'Segment information').

Notes to the Financial Statements

2 Operating costs – continuing operations *(continued)*

Auditors' remuneration
Auditors' remuneration relates to fees paid to PricewaterhouseCoopers LLP.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fees payable to the Company's auditors of its subsidiaries for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.3**	0.3
Other services pursuant to legislation	**0.1**	-
Corporate finance	**0.6**	-
IT review	**0.8**	-
Other services	**0.1**	-
	1.9	0.3

Auditors' remuneration includes services provided to both continuing and discontinued operations.

In 2008 services provided by the auditors in relation to the wider BAA Group's refinancing were borne by BAA Limited.

3 Employee information and Directors' emoluments

Employee numbers
The Group has no employees. However, all staff costs for the Group's operations are borne by BAA Airports Limited which recharges all such costs directly to the Group's subsidiaries. The average number of employees of BAA Airports Limited engaged in the Group's continuing operations during the year was 6,885 (2008: 7,122). The number of employees engaged in discontinued operations was 2,274 (2008: 2,186).

Directors' remuneration
None of the directors who served BAA (SH) Limited during the year received emoluments from the Company.

L Sanchez Salmeron was a director of BAA Airports Limited, BAA Limited and FGP Topco Limited until 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed in all three sets of financial statements for that period where relevant. J Leo was a director of BAA Limited for the year and BAA Airports Limited from 31 July 2009. His remuneration was paid by BAA Airports Limited and is disclosed within the respective financial statements for the period for which he was a director. F Maroudas was paid by, but is not a director of, BAA Airports Limited. The directors do not believe it is possible to apportion their remuneration to individual companies within the BAA Group based on services provided.

In accordance with a long term incentive scheme, a cash amount could be awarded to one director (2008: none), which would vest in 2012 contingent on achieving or surpassing EBITDA targets over a three year period. As the financial performance is uncertain at this stage the above emoluments do not contain any value in relation to this award.

No directors (2008: none) exercised any share options during the year, and no shares (2008: none) were received or became receivable under long-term incentive plans.

During the year, none of the directors (2008: one) had retirement benefits accruing to them under a defined benefit pension scheme and one of the directors (2008: none) had retirement benefits accruing to them under a defined contribution pension scheme.

4 Exceptional items

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Pension[1]	**218**	13
Reorganisation income	**(1)**	(3)
Heathrow Terminals 1 and 2 accelerated depreciation[2]	**55**	84
Heathrow Terminal 5 launch / operational readiness costs	**-**	22
Total exceptional items before income tax	**272**	116
Tax credit on exceptional items	**(76)**	(33)
Total exceptional items	**196**	83

[1] During 2009 total exceptional pension costs of £218 million (2008: £13 million) were incurred. £216 million (2008: £nil) was in relation to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme and £2 million (2008: £13 million) in relation to UURBS, in accordance with the Shared Services Agreement ('SSA'). For more information on pension costs charged refer to the Accounting policies.
[2] With the development of the new Terminal 2, the existing Terminals 1 and 2 at Heathrow airport will be demolished necessitating an additional depreciation charge of £55 million in the year to 31 December 2009 (2008: £84 million) to reflect the shortened useful lives of the assets.

Notes to the Financial Statements

5 Financing – continuing operations

a) Net finance costs

	Note	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Finance income			
Interest receivable on derivatives not in hedge relationship		**151**	64
Interest on deposits		**-**	1
		151	65
Finance costs			
Interest on borrowings:			
Bonds and related hedging instruments		**(333)**	(116)
Bank loans and overdrafts and related hedging instruments		**(368)**	(162)
Interest payable on derivatives not in hedge relationship		**(88)**	(91)
Facility fees		**(18)**	(24)
Interest on group borrowings		**-**	(381)
Unwinding of discount on Terminal 5 land purchase and other provisions	*20*	**(3)**	(15)
Total borrowing costs		**(810)**	(789)
Less: capitalised borrowing costs	*9*	**22**	96
		(788)	(693)
Net finance costs before certain re-measurements		**(637)**	(628)

[1] Restated for change in accounting for accretion on index-linked swaps.

The net finance costs above are for continuing operations only. Finance income and finance costs for discontinued operations are disclosed in Note 7 'Discontinued operations'.

Borrowing costs included in the cost of qualifying assets (i.e. capitalised borrowing costs) arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 2.87% (31 December 2008: 6.92%) to expenditure incurred on such assets.

b) Fair value (losses)/gains on financial instruments

	Year ended 31 December 2009 £m	Restated[1] Year ended 31 December 2008 £m
Interest rate swaps: cash flow hedges[2]	**21**	(24)
Interest rate swaps: not in hedge relationship	**-**	(13)
Cross-currency interest rate swaps: cash flow hedges [2]	**(12)**	35
Index-linked swaps: not in hedge relationship	**(126)**	123
Fair value re-measurements of foreign exchange contracts and currency balances	**(3)**	8
Fair value (losses)/gains on financial instruments	**(120)**	129

[1] Restated for change in accounting for accretion on index-linked swaps.
[2] Hedge ineffectiveness on derivatives in a hedge relationship.

6 Taxation - continuing operations

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
UK Corporation Tax		
Current tax at 28% (31 December 2008: 28.5%)	**9**	(70)
Over provision in respect of prior years	**(1)**	(20)
Deferred Tax		
Current year	**(176)**	(39)
Prior year	**4**	13
Ordinary taxation credit for the year	**(164)**	(116)
Deferred tax		
Current year	**-**	1,069
Exceptional taxation charge for the year	**-**	1,069

6 Taxation - continuing operations *(continued)*

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Loss before tax	**(693)**	(389)

The tax on the Group's loss before tax differs from the theoretical amount that would arise by applying the UK statutory tax rate to the accounting losses of the Group:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Reconciliation of the tax charge		
Tax calculated at the UK statutory rate of 28% (31 December 2008: 28.5%)	**(194)**	(110)
Adjustments in respect of current income tax of previous years	**(1)**	(20)
Change in UK corporation tax rate - impact on deferred tax assets and liabilities	**-**	1
Expenses not deductible for tax purposes	**27**	-
Adjustments in respect of deferred income tax of previous years	**4**	13
Ordinary taxation credit for the year	**(164)**	(116)
Deferred tax – impact of the abolition of industrial buildings allowances	**-**	1,069
Exceptional taxation charge for the year	**-**	1,069

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowances ('IBAs') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1,175 million (£106 million of which relates to discontinued operations). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

7 Discontinued operations

Discontinued operations represents components of the Group that have been disposed of or classified as held-for-sale during the year. In accordance with IFRS 5 - 'Non-current assets held-for-sale and discontinued operations', the results and cash flows of this 'disposal group' are reported separately from the performance of continuing operations at each reporting date.

Gatwick was sold on 3 December 2009 and the results to the date of disposal are reported in (a) below.

a) Net loss from discontinued operations

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before certain re-measurements £m	**Certain re-measurements £m**	**Total £m**	Before certain re-measurements £m	Certain re-measurements £m	Total £m
Revenue	**440**	**-**	**440**	465	-	465
Operating costs						
Depreciation and amortisation	**-**	**-**	**-**	(47)	-	(47)
Other	**(281)**	**-**	**(281)**	(297)	-	(297)
Other items						
Fair value losses on investment property	**-**	**(49)**	**(49)**	-	(43)	(43)
Operating profit from discontinued operations	**159**	**(49)**	**110**	121	(43)	78
Analysed as:						
Operating profit before exceptional items	**158**	**(49)**	**109**	112	(43)	69
Exceptional items	**1**	**-**	**1**	9	-	9
Financing						
Financing costs	**(67)**	**-**	**(67)**	(56)	-	(56)
	(67)	**-**	**(67)**	(56)	-	(56)
Loss on disposal of operations[1]	**(161)**	**-**	**(161)**	-	-	-
(Loss)/profit before tax from discontinued operations	**(69)**	**(49)**	**(118)**	65	(43)	22
Taxation – ordinary	**(15)**	**13**	**(2)**	(24)	16	(8)
Taxation – exceptional	**-**	**-**	**-**	(106)	-	(106)
Tax (charge)/credit on (loss)/profit of discontinued operations	**(15)**	**13**	**(2)**	(130)	16	(114)
Net loss from discontinued operations	**(84)**	**(36)**	**(120)**	(65)	(27)	(92)

[1] Includes £106 million impairment charge on investment in Gatwick up to the date of disposal and £55 million loss on disposal.

Notes to the Financial Statements

7 Discontinued operations *(continued)*

b) Disposal of business
On 3 December 2009, the BAA Group sold Gatwick for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure. Sale proceeds were used primarily to repay bank debt. In addition, at 31 December 2009, £143 million of the proceeds were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. The remainder of the sale proceeds are being utilised to fund transaction costs including legal and other advisory fees and directly attributable separation costs.

The loss on disposal arising is detailed below:

	£m
Property, plant and equipment	**1,277**
Investment property	**613**
Other assets	**45**
Cash and cash equivalents	**39**
Corporation tax receivable	**9**
Deferred income tax liabilities	**(375)**
Other liabilities	**(101)**
Net assets	**1,507**
Add: Disposal costs	**73**
Carrying value of disposed operations	**1,580**
Consideration:	
Cash and cash equivalents	**(1,419)**
Loss on disposal	**(161)**

The loss on disposal of Gatwick includes an impairment charge of £106 million that was recognised in 2009 prior to disposal, as a result of the carrying value of Gatwick airport's assets being greater than their expected recoverable amount less disposal costs at the time.

8 Dividends

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Equity dividends declared and paid during the year		
Interim dividends paid	**-**	702
	-	702

The Company paid an interim dividend of 28p per ordinary share, amounting to £702 million, on 18 August 2008. No dividends were declared or paid in 2009.

9 Property, plant and equipment

	Note	Terminal complexes £m	Airfields £m	Plant and equipment £m	Other land and buildings £m	Rail £m	Assets in the course of construction £m	Total £m
Cost								
Balance 1 January 2008		5,177	971	498	91	680	5,728	**13,145**
Additions		9	-	3	-	-	726	**738**
Net transfers from/(to) investment properties	*10*	-	-	-	2	-	(9)	**(7)**
Transfers from/(to) completed assets		3,748	328	97	18	685	(4,876)	**-**
Inter-company transfers		-	-	-	-	-	22	**22**
Borrowing costs capitalised		-	-	-	-	-	100	**100**
Disposals		(4)	-	(2)	-	(8)	-	**(14)**
Reclassifications		125	-	(10)	(12)	-	(103)	**-**
Transferred to assets held-for-sale	*22*	(1,440)	(193)	(120)	(29)	-	(73)	**(1,855)**
Balance 1 January 2009		7,615	1,106	466	70	1,357	1,515	**12,129**
Additions		4	-	4	-	-	725	**733**
Net transfers from/(to) investment properties	*10*	3	-	-	16	-	(21)	**(2)**
Transfers from/(to) completed assets		784	31	89	6	5	(915)	**-**
Inter-company transfers		(6)	-	-	-	-	-	**(6)**
Borrowing costs capitalised	*5*	-	-	-	-	-	22	**22**
Disposals		(171)	(3)	(1)	(9)	-	-	**(184)**
Balance 31 December 2009		**8,229**	**1,134**	**558**	**83**	**1,362**	**1,326**	12,692
Depreciation								
Balance 1 January 2008		(1,899)	(248)	(365)	(19)	(168)	-	(2,699)
Charge		(375)	(40)	(30)	(5)	(36)	-	(486)
Disposals		4	-	2	-	8	-	14
Reclassifications		2	-	21	(9)	(14)	-	-
Transferred to assets held-for-sale	*22*	571	73	79	6	-	-	729
Balance 1 January 2009		(1,697)	(215)	(293)	(27)	(210)	-	(2,442)
Charge	*2*	(365)	(38)	(36)	(4)	(41)	-	(484)
Disposals		165	3	1	3	-	-	172
Inter-company transfers		2	-	-	-	-	-	2
Balance 31 December 2009		**(1,895)**	**(250)**	**(328)**	**(28)**	**(251)**	**-**	**(2,752)**
Net book value 31 December 2009		**6,334**	**884**	**230**	**55**	**1,111**	**1,326**	**9,940**
Net book value 31 December 2008		5,918	891	173	43	1,147	1,515	9,687

Property, plant and equipment includes £105 million (2008: £179 million) for the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land have been relocated and the acquisition cost represents the present value of the payment made at the end of January 2010. Previously the estimated deferred payments were to be made over 30 years (from the date of acquisition) to the vendor in compensation for relocation. However, a full and final settlement, extinguishing all further payment obligations has been agreed, resulting in a decrease to the acquisition cost.

Assets in the course of construction include £190 million (2008: £167 million) in respect of the development of a second runway and related infrastructure at Stansted and £10 million in respect of a third runway and related infrastructure at Heathrow. With respect to Stansted, the costs consist of £83 million (2008: £79 million) incurred in relation to the planning application preparation and £107 million (2008: £88 million) in relation to the purchase of domestic properties that fall within the expanded airport boundary, or for those people living near the airport whose homes will be affected by the airport expansion, and land acquisition. This includes a provision of £5 million (2008: £5 million) for additional payments once planning permission has been obtained. Costs capitalised in respect of the third runway at Heathrow relate solely to planning and development costs, with no purchases of domestic properties or land having taken place as at 31 December 2009. Assets in the course of construction also include the second satellite under construction for Terminal 5 (T5C), the remaining phases of the satellite building for Terminal 2 as well as Terminal 4 extension and Terminal 3 refurbishments at Heathrow.

Other land and buildings are freehold except for certain short leasehold properties with a net book value of £21 million (2008: £20 million).

Borrowing costs capitalised

The amount of borrowing costs included in the cost of Group assets was £1,143 million (2008: £1,215 million). Borrowing costs were capitalised at an average rate of 2.87% (2008: 6.92%).

A tax deduction of £22 million (2008: £96 million) for capitalised borrowing costs, excluding the unwinding of the provision for the obligation for Terminal 5 land purchase, was taken in the year. Subsequent depreciation of the capitalised borrowing costs is disallowed for tax purposes. Consequently, the capitalised borrowing costs give rise to a deferred tax liability, which is released each year in line with the depreciation charged on the relevant assets.

Security granted by the Group over its assets, including property, plant and equipment, is disclosed in Note 16 'Borrowings'.

Notes to the Financial Statements

10 Investment properties

	Note	Airport investment properties £m	Assets in the course of construction £m	Total £m
Valuation				
Balance 1 January 2008		2,733	7	2,740
Additions		-	250	250
Transfers to/(from) completed assets		246	(246)	-
Net transfers from operational assets	*9*	7	-	7
Valuation loss		(190)	-	(190)
Transfer to assets held-for-sale	*22*	(651)	(3)	(654)
Balance 1 January 2009		2,145	8	2,153
Additions		4	18	22
Transfers to/(from) completed assets		17	(17)	-
Net transfers from operational assets	*9*	2	-	2
Valuation loss		(93)	-	(93)
Balance 31 December 2009		**2,075**	**9**	**2,084**

Airport investment properties were valued at fair value at 31 December 2009 by Drivers Jonas, Chartered Surveyors and Strutt & Parker, Chartered Surveyors.

Details of the valuations performed are provided below:

	Note	31 December 2009 £m	31 December 2008 £m
Drivers Jonas		**2,072**	2,795
Strutt and Parker		**12**	12
At professional valuation		**2,084**	2,807
At directors' valuation		**-**	-
		2,084	2,807
Transfer to assets held-for-sale	*22*	**-**	(654)
		2,084	2,153

All valuations were prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations were carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) has been capitalised using yields derived from market evidence. There were no restrictions on the reliability or remittance of income or proceeds on disposal.

Void areas amounted to 8,007m^2 in the year (2008: 38,385m^2) representing 0.75% (2008: 3.15%) of the Group's investment property portfolio.

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during their period of occupation. This service charge amounted to £3 million (2008: £3 million) for which a similar amount is included within operating costs.

Security granted by the Group over its assets, including investment properties, is disclosed in Note 16 'Borrowings'.

11 Intangible assets

	Note	£m
Cost		
Balance 1 January 2008		175
Additions		28
Transferred to assets held-for-sale	*22*	-
Balance 1 January 2009		**203**
Additions		18
Transferred to assets held-for-sale		(13)
Balance 31 December 2009		**208**
Amortisation		
Balance 1 January 2008		(111)
Charge for the year		(27)
Balance 1 January 2009		**(138)**
Charge for the year		(27)
Disposals		12
Balance 31 December 2009		**(153)**
Net book value 31 December 2009		**55**
Net book value 31 December 2008		65

All intangible assets relate to capitalised computer software costs.

These software costs principally relate to operating and financial software. These assets are being amortised over a period of between three and seven years. Amortisation for the year has been charged through operating costs.

Software costs include assets in the course of construction of £20 million (2008: £12 million).

12 Inventories

	31 December 2009 £m	31 December 2008 £m
Consumables	**5**	5
	5	5

The total amount of inventories consumed in the year relating to continuing operations was £6 million (2008: £1 million) and relating to discontinued operations was £1 million (2008: £1 million).

There is no material difference between the statement of financial position value of inventories and their replacement cost.

13 Trade and other receivables

	31 December 2009 £m	Restated[1] 31 December 2008 £m
Non-current		
Prepayments	**49**	50
Total non-current	**49**	50
Current		
Trade receivables	**186**	206
Less: Provision for impairment	**(3)**	(2)
Trade receivables – net	**183**	204
Prepayments	**28**	28
Group tax relief receivable	**-**	38
Amounts owed by group undertakings[2]	**40**	98
Amounts owed by group undertakings - pensions[3]	**36**	5
Other receivables	**20**	37
Total current	**307**	410

[1] The presentation of balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Amounts owed by group undertakings largely relate to external payments received by BAA Airports Limited under the Shared Services Agreement on behalf of the Group's airports that will be remitted to the airports in due course. This amount is payable on demand and accrues interest at Bank of England base rate +1.5%.
[3] Amounts owed by group undertakings - pensions is the receivable from BAA Airports Limited, net of current service cost charges to date, due to cash contributions made directly by the Group's airports and HEX to the pension trustee of the BAA Airports Limited defined benefit pension scheme on behalf of BAA Airports Limited.

Non-current prepayments of £49 million represent refinancing fees paid in 2008 on facilities not yet drawn and future bond issuances (2008: £50 million). Refinancing fees paid on facilities are amortised over the term of the facility whereas fees paid for future bond issuances will be allocated to the bonds when issued and amortised using the effective interest rate method.

The fair value of loans, trade and other receivables are not materially different from the carrying value.

Unless otherwise stated, trade and other receivables do not contain impaired assets.

Trade receivables are non-interest bearing and are generally on 14 day terms. No collateral is held as security.

As of 31 December 2009, trade receivables of £121 million (2008: £118 million) were fully performing. Trade receivables of £62 million (2008: £86 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
Up to 3 months	**41**	80
Over 3 months	**21**	6
	62	86

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 1 January 2009	2
Provision for receivables impairment	1
Receivables written off during the year as uncollectible	-
At 31 December 2009	**3**

13 Trade and other receivables *(continued)*

As of 31 December 2009, trade receivables of £3 million (2008: £3 million) were considered for impairment and of which an amount of £3 million (2008: £2 million) was provided for, with the remaining amount expected to be fully recovered. The individually impaired receivables mainly relate to customers who are in difficult economic situations. The creation and release of provisions for impaired receivables have been included in 'general expenses' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovery. The ageing of these trade receivables is as follows:

	31 December 2009 £m	31 December 2008 £m
3 to 6 months	**3**	2
	3	2

The Group is not exposed to significant foreign currency exchange risk as the majority of trade and other receivables are denominated in Sterling. Additional disclosure on credit risk management is included in Note 18 'Financial instruments'.

14 Restricted cash

	31 December 2009 £m	31 December 2008 £m
Cash account	**143**	-

At 31 December 2009, £143 million of the proceeds from the sale of Gatwick airport were being held in escrow to be used primarily to settle a commutation payment into the BAA Group's defined benefit pension scheme once the final number of Gatwick employees who choose to transfer to their new employer's scheme is determined. For more details regarding the Gatwick disposal refer to Note 7 'Discontinued operations'.

15 Cash and cash equivalents

	31 December 2009 £m	31 December 2008 £m
Cash at bank and in hand	**5**	25
Short-term deposits	**235**	142
	240	167

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates and is subject to interest rate risk. The fair value of cash and cash equivalents approximates their book value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less, excluding Gatwick disposal proceeds held in escrow, held for the purpose of meeting short-term cash commitments, and consists of:

	Note	**31 December 2009 £m**	31 December 2008 £m
Cash at bank and in hand		**5**	25
Short-term deposits		**235**	142
Cash and cash equivalents held-for-sale	*22*	**-**	15
		240	182

16 Borrowings

	31 December 2009 £m	31 December 2008 £m
Current		
Secured		
Bank loans - EIB	**41**	43
Total current (excluding interest payable)	**41**	43
Interest payable	**154**	179
Total current	**195**	222
Non-current		
Secured		
Bonds:		
3.975% €1,000 million due 2012	**842**	893
5.850% £400 million due 2013	**368**	363
4.600% €750 million due 2014	**613**	656
12.450% £300 million due 2016	**377**	387
4.600% €750 million due 2018	**582**	628
9.200% £250 million due 2021	**285**	287
5.225% £750 million due 2023	**612**	606
6.750% £700 million due 2026	**685**	-
7.075% £200 million due 2028	**197**	197
6.450% £900 million due 2031	**838**	837
3.334%+RPI £235 million due 2039	**234**	-
Total bonds	**5,633**	4,854
Syndicated term facility	**2,254**	3,289
Capital expenditure facility	**652**	197
Subordinated facility	**1,564**	1,563
Bank loans	**331**	372
Total bank loans	**4,801**	5,421
Total non-current	**10,434**	10,275
Total current and non-current (excluding interest payable)	**10,475**	10,318

Syndicated term facility
The syndicated term facility has decreased during the year mainly due to the application of the proceeds from the bond issues together with part of the proceeds from the sale of Gatwick airport in prepaying the facility (including £1,050 million of the syndicated term facility repaid that is included in discontinued operations).

Bonds
The Group returned to the debt capital markets in late 2009 for the first time since 2006, completing two bond issues that generated proceeds of £924 million (net of issuance costs).

The bonds are all issued by BAA Funding Limited. The maturity dates listed above reflect their scheduled redemption dates that correspond to the maturity dates of the loans between Heathrow Airport Limited and BAA Funding Limited. The bonds are not callable in nature and are expected to be repaid on their scheduled maturity date. However, to meet rating agency requirements the bonds have a legal maturity that is two years later.

Fair value of borrowings	**31 December 2009**		31 December 2008	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long term debt	**10,434**	**10,821**	10,275	9,182

The fair value of current borrowings approximates book value. Accrued interest is included as a current borrowings balance and not in the carrying amount of non-current borrowings. The fair values of listed borrowings are based on quoted prices. For unlisted borrowings, the Group establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Securities and guarantees

Heathrow Airport Limited, Stansted Airport Limited, Heathrow Express Operating Company Limited, BAA (SP) Limited and BAA (AH) Limited (together, the Obligors) have granted security over their assets to secure their obligations under their financing arrangements and to the Subordinated Creditors under the subordinated facility held by BAA (SH) Limited. Each Obligor has also provided a guarantee in respect of the obligations of the other Obligors under these financing arrangements.

BAA (DSH) Limited, ADI Finance 2 Limited, BAA Limited, BAA Airports Holdco Limited and BAA Airports Limited are also guarantors under the subordinated facility. All the guarantors, apart from ADI Finance 2 Limited, are party to the transaction security which secures liabilities arising under the subordinated facility.

BAA Pension Trustee Company Limited (the BAA Pension Trustee) has a right to receive up to £300 million out of the proceeds of enforcement of the security granted by the Obligors.

BAA Funding Limited has provided security to the Bond Trustee (as trustee for the Issuer Secured Creditors).

16 Borrowings *(continued)*

Heathrow Airport Limited, Stansted Airport Limited and Heathrow Express Operating Company Limited have provided a guarantee in favour of The Royal Bank of Scotland plc as Borrower Account Bank in respect of the liabilities of those companies under the Borrower Account Bank Agreement.

Additional disclosures on risk management and hedging of borrowings are included in Note 17 'Derivative financial instruments' and Note 18 'Financial instruments'.

17 Derivative financial instruments

2009	**Notional £m**	**Assets £m**	**Liabilities £m**	**Total £m**
Current				
Foreign exchange contracts - no hedge accounting	**9**	**-**	**-**	**-**
	9	**-**	**-**	**-**
Non-current				
Interest rate swaps - cash flow hedge	**4,225**	**3**	**(166)**	**(163)**
Cross-currency swaps - cash flow hedge	**1,703**	**652**	**-**	**652**
Index-linked swaps - no hedge accounting	**2,206**	**28**	**(172)**	**(144)**
	8,134	**683**	**(338)**	**345**
At 31 December 2009	**8,143**	**683**	**(338)**	**345**

Restated 2008[1]	Notional £m	Assets £m	Liabilities £m	Total £m
Current				
Foreign exchange contracts - no hedge accounting	45	7	-	7
	45	7	-	7
Non-current				
Interest rate swaps - cash flow hedge	4,426	72	(354)	(282)
Cross-currency swaps - cash flow hedge	1,703	758	-	758
Index-linked swaps - no hedge accounting	2,206	131	(312)	(181)
	8,335	961	(666)	295
At 31 December 2008	8,380	968	(666)	302

[1] The presentation of certain balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

Interest rate swaps
Interest rate swaps are maintained by the Group, and designated as cash flow hedges, where they qualify, against variability in interest cash flows on current and future floating or fixed borrowings. The gains and losses deferred in equity on the cash flow hedges described above will be continuously released to the income statement over the period of the hedged risk.

Index-linked swaps have been entered into to economically hedge debt instruments and RPI linked revenue.

Cross-currency swaps
Cross-currency swaps have been entered into by the Group to hedge currency risk on interest and principal payments on Euro-denominated bond issues. The gains and losses deferred in equity on these swaps will be continuously released to the income statement over the period to maturity of the hedged bonds.

Foreign exchange contracts
Foreign exchange forward and swap contracts are used to manage exposures relating to future capital expenditure. Hedge accounting is not sought for these derivatives.

Fair value of derivative financial instruments
The valuation technique used by the Group is a discounted cash flow methodology. In 2009, the Group has revisited the input data used in the discounted cash flow methodology to exclude the initial credit and execution costs. This change in estimates impacted the fair value of derivatives by a gain of £82 million with a corresponding entry in the income statement within 'Fair value (losses)/gains on financial instruments'. This amount will be reversed through the income statement over the life of the derivatives.

18 Financial instruments

Financial risk management objectives and policies
The Group's principal financial instruments (other than derivatives) comprise bank loans, listed bonds, cash and short-term deposits. The main purpose of these instruments is to raise finance for the Group's operations.

The Group also enters into hedging transactions, principally interest rate swaps, cross-currency swaps and foreign exchange contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group mitigates the risk of mismatch between aeronautical income and its airports' regulatory asset bases, which are directly linked to changes in the retail prices index, and nominal debt and interest payments by the issuance of inflation linked debt and derivatives.

The Group does not use financial instruments for speculative purposes. The treasury function operates on a centralised non-speculative risk basis. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Group's business operations and funding.

The main risks arising from the Group's financial instruments are market risk (including fair value interest rate, foreign currency, cash flow interest rate and price risks), credit risk and liquidity risk. The Board approves prudent treasury policies for managing these risks which are summarised below.

18 Financial instruments *(continued)*

Foreign exchange risk
For debt raised in foreign currencies, the Group uses cross-currency swaps to hedge all interest and principal payments, subject to a de minimis limit. The Group uses foreign exchange contracts to hedge material capital expenditure in foreign currencies once a project is certain to proceed.

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the Euro, annual pre-tax profit would have decreased or increased by £18 million and £22 million respectively (2008: £13 million decrease and £15 million increase respectively).

As at 31 December 2009, with all other variables remaining constant, if Sterling strengthened or weakened by 10% against the USD, there would have been nil impact in the annual pre-tax profit (2008: £0.3 million increase and £0.4 million decrease respectively).

Price risk
The Group is not materially exposed to equity security price risk on investments held by the Group.

The Group is exposed to RPI risk on its index-linked bond and derivatives held to economically hedge cash flows on debt instruments and RPI linked revenue. As at 31 December 2009, with all other variables remaining constant, if the RPI had increased or decreased by 10%, annual pre-tax profit would have decreased or increased by £76 million and £74 million respectively (2008: £54 million decrease and £53 million increase respectively).

Cash flow and fair value interest rate risk
The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a mix of fixed to floating rate debt within Board approved parameters such that a minimum of 70% of existing and forecast debt is at a fixed rate. To manage this mix, the Group enters into interest rate swaps. These swaps may be designated to hedge underlying debt obligations. The Group also uses floating rate interest bearing financial assets as a natural hedge of the exposure to fair value interest rate risk.

The Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for forecast issuance of debt.

As at 31 December 2009, the Group's fixed floating interest rate profile, after hedging, on gross debt was 83:17 (2008: 76:24).

As at 31 December 2009, each 0.50% change in interest rates would have resulted in the following gain/(loss) to pre-tax profit and equity, due to movement in the interest income, interest charge and mark-to-market valuation of derivatives.

	31 December 2009		31 December 2008	
	Income statement impact £m	**Equity impact £m**	Income statement impact £m	Equity impact £m
0.50% increase	**28**	**150**	17	195
0.50% decrease	**(30)**	**(160)**	(18)	(214)

Credit risk
Credit risk arises from cash and cash equivalents, derivative financial instruments and accounts receivable. The Group has no significant concentrations of credit risk. The Group's exposure to credit related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party or instrument and ensuring only counterparties within defined credit risk parameters are used.

The Group maintains a prudent split of cash and cash equivalents across a range of market counterparties in order to mitigate counterparty credit risk. Board approved investment policies and relevant debt facility agreements provide counterparty investment limits, based on short- and long-term credit ratings. Investment activity is reviewed on a regular basis and no cash or cash equivalents are placed with counterparties with credit ratings lower than A-/A-1.

As at 31 December 2009, the Group had total credit risk with derivative counterparties of its interest rate swaps, index-linked swaps and cross-currency swaps of £683 million (2008: £961 million). The Group monitors the credit rating of derivative counterparties on a daily basis and ensures no positions are held with counterparties with short- and long-term credit ratings below A-2/F1 and BBB+/A, respectively.

Financial assets past due but not impaired are disclosed in Note 13 'Trade and other receivables'. The maximum exposure to credit risk as at 31 December 2009 was £1,269 million (2008: £1,376 million).

Liquidity risk
Although there can be no certainty that financing markets will remain open for issuance at all times, debt maturities are spread over a range of dates, thereby ensuring that the Group is not exposed to excessive refinancing risk in any one year.

The Group has the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at 31 December:

	31 December 2009 £m	31 December 2008 £m
Floating rate facilities		
Expiring in more than two years	**2,050**	**2,500**

As at 31 December 2009, overdraft facilities of £10 million were available (2008: £5 million).

18 Financial instruments *(continued)*

The table below analyses the gross undiscounted contractual cash flows on the Group's financial liabilities and net settled derivative financial instruments as at 31 December to the contractual maturity date.

	31 December 2009			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Borrowing principal payments	**41**	**1,824**	**4,471**	**4,024**
Borrowing interest payments	**489**	**449**	**1,014**	**2,635**
Derivative financial instruments	**(21)**	**-**	**152**	**834**
Trade payables	**110**	**-**	**-**	**-**

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Borrowing principal payments	43	1,041	6,409	3,638
Borrowing interest payments	620	586	1,168	2,134
Derivative financial instruments	(74)	(16)	104	309
Trade payables	110	-	-	-

The tables below analyse the Group's derivative financial instruments which will be settled on a gross basis based on the remaining period as at 31 December 2009 and 31 December 2008 to the contractual maturity date.

	31 December 2009			
	Less than one year £m	**One to two years £m**	**Two to five years £m**	**Greater than five years £m**
Cross-currency derivative payments	**36**	**54**	**125**	**100**
Cross-currency derivative receipts	**(96)**	**(96)**	**(219)**	**(122)**

	31 December 2008			
	Less than one year £m	One to two years £m	Two to five years £m	Greater than five years £m
Cross-currency derivative payments	44	44	167	144
Cross-currency derivative receipts	(104)	(104)	(274)	(198)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group regularly reviews and maintains or adjusts its capital structure as appropriate in order to achieve these objectives.

The Group monitors capital on the basis of its gearing ratio. Like other regulated utilities in the UK, gearing is measured by reference to the ratio of net debt to the Regulatory Asset Base ('RAB'). Net debt is external nominal net debt at the entity within the Group that the relevant debt facility sits.

There are gearing covenants in financing agreements at various levels, including BAA (SH) Limited and BAA (SP) Limited. Gearing ratios of each of these as are set out below:

	31 December 2009	31 December 2008
Net debt to RAB at BAA (SH) Limited	**0.86**	0.88
Net total debt to RAB at BAA (SP) Limited	**0.73**	0.76
Net senior debt to RAB at BAA (SP) Limited	**0.67**	0.68

The decrease in gearing ratios in 2009 is largely the result of strong cash flow and the impact of inflation on the RAB.

BAA (SH) Limited

Notes to the Financial Statements

18 Financial instruments *(continued)*

Financial instruments by category
The Group's financial instruments as classified in the financial statements as at 31 December can be analysed under the following IAS 39 categories:

	31 December 2009			
	Loans and receivables £m	**Assets at fair value through income statement £m**	**Derivatives qualifying for hedge accounting £m**	**Total £m**
Derivative financial instruments	**-**	**28**	**655**	**683**
Cash and cash equivalents	**383**	**-**	**-**	**383**
Trade receivables	**183**	**-**	**-**	**183**
Other receivables	**20**	**-**	**-**	**20**
Total financial assets	**586**	**28**	**655**	**1,269**

	31 December 2009			
	Liabilities at fair value through income statement £m	**Derivatives qualifying for hedge accounting £m**	**Other financial liabilities £m**	**Total £m**
Borrowings	**-**	**-**	**(10,475)**	**(10,475)**
Derivative financial instruments	**(172)**	**(166)**	**-**	**(338)**
Trade payables	**-**	**-**	**(110)**	**(110)**
Total financial liabilities	**(172)**	**(166)**	**(10,585)**	**(10,923)**

	31 December 2008			
	Loans and receivables £m	Assets at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Total £m
Derivative financial instruments	-	138	830	968
Cash and cash equivalents	167	-	-	167
Trade receivables	204	-	-	204
Other receivables	37	-	-	37
Total financial assets	408	138	830	1,376

	31 December 2008			
	Liabilities at fair value through income statement £m	Derivatives qualifying for hedge accounting £m	Other financial liabilities £m	Total £m
Borrowings	-	-	(10,318)	(10,318)
Derivative financial instruments	(312)	(354)	-	(666)
Trade payables	-	-	(110)	(110)
Total financial liabilities	(312)	(354)	(10,428)	(11,094)

At 31 December 2009, the Group has not designated any financial assets or financial liabilities at fair value through the income statement. The only financial assets and financial liabilities at fair value through the income statement are derivatives that do not qualify for hedge accounting.

Fair value estimation
Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by the following fair value measurement hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

18 Financial instruments *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2009.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Assets at fair value through the income statement	-	28	-	28
Derivatives qualifying for hedge accounting	-	655	-	655
Total assets	-	683	-	683
Liabilities				
Liabilities at fair value through the income statement	-	(172)	-	(172)
Derivatives qualifying for hedge accounting	-	(166)	-	(166)
Total liabilities	-	(338)	-	(338)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross-currency and interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

At 31 December 2009, all of the resulting fair value estimates in the Group are included in level 2.

19 Deferred income tax

The net movement on the deferred income tax account is as follows:

	Note	**2009 £m**	2008 £m
Balance 1 January		**2,116**	1,490
Transfer of subsidiary to asset held-for-sale	*22*	**-**	(373)
Disposal of operations		**(3)**	-
Credited to income statement[1]		**(169)**	(45)
Impact of abolition of Industrial Buildings Allowances – charged to income statement[2]		**-**	1,175
Charged/(credited) to equity		**83**	(131)
Balance 31 December		**2,027**	2,116

[1] Includes a £3 million charge (2008: £18 million credit) to income statement relating to discontinued activities.
[2] A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement, in particular the UK Government announced that Industrial Buildings Allowance ('IBA's') would be abolished over three years from 1 April 2008. As a consequence, the Group recognised an exceptional accounting loss in the form of a deferred tax charge amounting to £1,175 million in 2008 (£106 million of which related to discontinued activities). In effect, the accounting charge reflected as a one off loss the forfeiture of all the future tax relief on expenditure which was incurred before the changes were made. The accounting impact will be neutral in the long term as the loss will unwind over the life of the underlying assets.

19 Deferred income tax *(continued)*
The amounts of deferred income tax provided are detailed below:

Deferred income tax liabilities

	Excess of capital allowances over depreciation £m	Revaluations of investment property to fair value £m	Tax on rolled over gains £m	Other £m	Total £m
Balance 1 January 2009	1,669	476	12	52	2,209
Credited to income statement	(84)	(29)	-	(35)	(148)
Disposal of operations	(3)	13	-	(13)	(3)
Credited to equity	-	(3)	-	-	(3)
Balance at 31 December 2009	**1,582**	**457**	**12**	**4**	**2,055**

Deferred income tax assets

	IAS 32/39 £m	**Total £m**
Balance at 1 January 2009	(93)	(93)
Credited to the income statement	(21)	(21)
Charged to equity	86	86
Balance 31 December 2009	**(28)**	**(28)**

Deferred income tax (credited)/charged to equity during the year is as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Fair value reserves in shareholder's equity		
Cash flow hedge reserve	**86**	(128)
Indexation – operational land	**(3)**	(3)
Total	**83**	(131)

20 Provisions

	Note	Disposal of operations £m	Reorganisation £m	Obligations under land purchase £m	Pension £m	Other £m	Total £m
Balance at 1 January 2009		-	25	111	13	6	155
Utilised		-	(17)	(2)	-	(1)	(20)
Charged to income statement		35	-	-	218	23	276
Release		-	-	(74)	-	-	(74)
Unwinding of discount charged and capitalised	*5*	-	-	3	-	-	3
Balance 31 December 2009		**35**	**8**	**38**	**231**	**28**	**340**
Current		35	8	38	231	10	322
Non-current		-	-	-	-	18	18
Balance 31 December 2009		**35**	**8**	**38**	**231**	**28**	**340**
Current		-	25	8	13	-	46
Non-current		-	-	103	-	6	109
Balance 31 December 2008		**-**	**25**	**111**	**13**	**6**	**155**

Disposal of operations
A provision of £35 million (2008: £nil) is held for costs associated with the disposal of Gatwick.

Reorganisation
Costs associated with the Group reorganisation are for severance and pension payments only. All amounts are expected to be utilised in 2010.

Obligations under land purchase
This provision relates to the acquisition of land for the construction of Terminal 5. The operational assets employed by the vendor of this land were relocated, and the initial provision was made in the amount of the present value of the estimated payments to be made over course of 30 years as per the agreement. However, agreement has been reached over a full and final payment settlement of £38 million, payable by Heathrow to the vendor by the end of January 2010 as discussed in further detail in Note 9 'Property, plant and equipment'.

20 Provisions *(continued)*

The provision of £38 million (2008: £111 million), net of discount, is expected to be utilised as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	**38**	8
One to two years	**-**	7
Two to five years	**-**	22
Five to ten years	**-**	26
Over ten years	**-**	48
	38	111

Pension
A provision of £231 million (2008: £13 million) is held in relation to pensions, representing the legal obligation the Group's airports and HEX have under the Shared Services Agreement to fund their share of BAA Airports Limited pension deficit and related pension liabilities. £216 million (2008: £nil) of the provision relates to the push down of the Group's share of the deficit on the BAA Airports Limited defined benefit pension scheme. £15 million (2008: £13 million) is held for historical accumulated past service pension costs borne by BAA Airports Limited in relation to the Unfunded Retirement Benefit Scheme and Post Retirement Medical benefits. These provisions will only be settled when the cash outflow is requested by BAA Airports Limited. For more information on pension costs charged refer to the Accounting policies note.

21 Trade and other payables

	31 December 2009 £m	Restated[1] 31 December 2008 £m
Non-current		
Deferred income	**5**	6
Total non-current	**5**	6
Current		
Trade payables	**110**	110
Other tax and social security	**7**	7
Other payables	**33**	60
Capital payables	**186**	219
Amounts owed to group undertakings	**-**	63
Total current	**336**	459

[1] The presentation of balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.

Trade payables are non-interest bearing and are generally on 30-day terms.

22 Assets held-for-sale

	Note	**31 December 2009 £m**	31 December 2008 £m
Property, plant and equipment	*9*	**-**	1,126
Investment property	*10*	**-**	654
Inventories		**-**	3
Trade and other receivables		**-**	67
Cash and cash equivalents	*15*	**-**	15
Total assets classified as held-for-sale		**-**	1,865
Trade and other payables		**-**	(82)
Current borrowings[1]		**-**	(9)
Non-current borrowings		**-**	(1,033)
Group relief payable		**-**	(16)
Deferred tax liabilities	*19*	**-**	(373)
Provisions		**-**	(6)
Total liabilities classified as held-for-sale		**-**	(1,519)
Net assets of disposal group		**-**	346

[1] Current borrowings relates to interest payable amounts.

On 3 December 2009 Gatwick Airport Limited was sold. No operations were classified as held-for-sale as at 31 December 2009.

Notes to the Financial Statements

23 Share capital

	2009 £	2008 £
Authorised		
9,000,000,000 ordinary shares of £1 each	9,000,000,000	9,000,000,000
Allotted and fully paid		
At 1 January - 2,509,350,689 ordinary shares of £1 each	2,509,350,689	2,509,350,689
Issue of 260,000,000 ordinary shares of £1 each	260,000,000	-
Issue of 22,629,685 ordinary shares of £1 each	22,629,685	-
In issue at 31 December - 2,791,980,374 / 2,509,350,689 ordinary shares of £1 each	**2,791,980,374**	**2,509,350,689**

On 13 November 2009, the Company issued 260,000,000 ordinary shares of £1.00 each to BAA (DSH) Limited. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

A further 22,629,685 ordinary shares were issued at £1.00 each to BAA (DSH) Limited on 4 December 2009. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

24 Revaluation reserve

	£m
Balance 1 January 2009 / 31 December 2009	365

The revaluation reserve relates to the historic revaluation of investment properties. Current revaluations of investment properties are included in the income statement.

25 Merger reserve

	£m
Balance 1 January 2009	2,865
Realisation of merger reserve – Gatwick airport disposal	(1,094)
Balance 31 December 2009	**1,771**

26 Fair value reserve

	Cash flow hedge reserve £m
At 1 January 2009	(330)
Fair value gains	19
Transferred to income statement	289
Deferred tax on fair value gains	(86)
Balance 31 December 2009	**(108)**

27 Tax relating to components of comprehensive income

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before tax £m	**Tax (charge)/ credit £m**	**After tax £m**	Before tax £m	Tax (charge)/ credit £m	After tax £m
Cash flow hedges						
Gains/(loss) taken to equity	**19**	**(5)**	**14**	(24)	7	(17)
Transferred to income statement	**289**	**(81)**	**208**	(434)	121	(313)
Indexation of operating land	**-**	**3**	**3**	-	3	3
Other comprehensive income	**308**	**(83)**	**225**	(458)	131	(327)
Current tax	**-**	**-**	**-**	-	-	-
Deferred tax (Note 19 'Deferred income tax')	**-**	**(83)**	**-**	-	131	**-**
	-	**(83)**	**-**	-	131	**-**

Notes to the Financial Statements

28 Retained earnings

	£m
Balance 1 January 2009	264
Net loss for the year	(649)
Indexation of operating land	3
Realisation of merger reserve - Gatwick airport disposal	(1,094)
Balance 31 December 2009	**(1,476)**

29 Commitments and contingent liabilities

Non-cancellable operating lease commitments – Group as a lessee

Total future minimum rentals payable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**12**	**44**	14	38
Within two to five years	**45**	**189**	41	149
After five years	**44**	**2,142**	46	2,549
	101	**2,375**	101	2,736

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewable rights. The Group also leases plant and machinery under non-cancellable operating leases.

A significant portion of the £2.4 billion commitments classified as 'Other' relates to electricity supply equipment at the airports leased on agreement with London Electricity Supply ('LES'). The lease has 74 years remaining. The amounts disclosed are the total estimated charges under the agreement including both the actual lease commitment and the significant maintenance element of the fee payable to LES as neither the Group nor LES are able to split the base fee between a 'capital' and 'maintenance' charge.

Non-cancellable operating lease commitments – Group as a lessor

Total future minimum rentals receivable as at the year end are as follows:

	31 December 2009		31 December 2008	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**81**	**-**	83	-
Within two to five years	**257**	**-**	244	-
After five years	**1,629**	**-**	1,525	-
	1,967	**-**	1,852	-

The Group uses a number of different leasing and contractual structures depending on the type and location of the investment property. Typically in multi-let offices and industrial premises a standard indefinite tenancy is used, which is terminable by the tenant on three months notice at any time. However, it is common for the accommodation to remain let or be quickly re-let should it be vacated. For larger, stand alone premises, e.g. cargo sheds, longer leases of multiples of three years are used.

Public car parks and car rental facilities are operated under concession agreements subject to minimum guaranteed payments, the amounts for which are included above.

Non-cancellable electricity purchase commitment

Total future minimum electricity payments as at the year end are as follows:

	31 December 2009 £m	31 December 2008 £m
Within one year	**57**	50
Within two to five years	**74**	131
After five years	**-**	-
	131	181

The Group has a contractual commitment to purchase electricity that is used to satisfy physical delivery requirements for electricity usage of the Group until March 2012. Such commitments are for the normal purchase, sale or usage of electricity and hence are accounted for as ordinary purchase contracts.

29 Commitments and contingent liabilities *(continued)*

Group commitments for property, plant and equipment

	31 December 2009 £m	31 December 2008 £m
Contracted for, but not accrued:		
Heathrow Airport - Terminal 5C	**106**	7
Heathrow Airport - Terminal 2A Building	**11**	-
Heathrow Airport - North West stands and taxi lanes	**10**	-
Heathrow Airport - Terminal 2B Phase 2	**8**	-
Heathrow Airport - Eastern Apron	**6**	6
Heathrow Airport - Terminal 4 airline relocations	**3**	6
Heathrow Airport - Terminal 2B North East Stands	**-**	5
Heathrow Airport - Post Terminal 5 transfer	**-**	16
Gatwick Airport - Landside Inter Terminal Transit System	**-**	14
	144	54
Other projects	**30**	71
	174	125

The figures in the above table are contractual commitments to purchase goods and services at the reporting date. The Group has in place long-term capital expenditure programmes at its airports. The Group's submission to the CAA in respect of quinquennium 5 included capital expenditure for Heathrow of £4,542 million (in 2007/08 prices). In line with commitments with the regulator, capital expenditure expected for Heathrow during 2010 amounts to £1,004 million. Under the terms of regulation, rebates of aeronautical income are made if certain key projects are not delivered by specified dates. The amount of rebate is linked to the return Heathrow is estimated to earn on the anticipated cost of the project. The capital programme included in Stansted's current price determination foresees total investment of £125 million until the end of March 2014. Capital expenditure expected for Stansted during 2010 amounts to £40 million.

The Group is pursuing the development of a second runway at Stansted, consistent with the Government's policy for runway development in the UK. The development of Stansted is still the subject of a planning inquiry and has been delayed pending clarification of the future ownership of Stansted given the disposal remedy included in the Competition Commission's ('CC') decision in its investigation on the supply of UK airport services by BAA.

In relation to the development of a second runway at Stansted, at 31 December 2009 the Group has capitalised costs, within runway development costs, of £83 million in relation to planning application preparation and £107 million in respect of the purchase of domestic properties and land for those people living near Stansted Airport whose homes will be affected by the airport expansion under voluntary schemes (the Home Value Guarantee Scheme (HVGS), the Home Owners Support Scheme and the Special Cases Scheme). The current estimate of the net cost of the blight compensation schemes is up to £110 million. Total value to 31 December 2009 is £107 million (2008: £88 million), including a £5 million provision for additional payments which will become due once planning permission is obtained for the second runway.

As part of its commitment to the development of a third runway at Heathrow, the Group is operating two voluntary blight schemes (the Property Market Support Bond (PMSB) for those properties within the indicative boundary of Runway 3/Terminal 6 and the Home Owners Support Scheme for those properties within the 66db leq contour for aircraft noise associated with Runway 3).

These schemes were the subject of extensive public consultation by BAA. The terms and conditions of the scheme were published by Heathrow Airport Limited in 2005. The intention at that time was to "trigger" access to the schemes when BAA announced its intention to submit a planning application for the third runway. Following the January 2009 Government announcement confirming policy support for a third runway, the BAA Board decided to allow home owners covered by PMSB to sell their properties under the scheme for one year. The current estimate for the cost of the PMSB is up to £300 million. As at 31 December 2009, no properties had been acquired under the scheme.

The Group is also required by the Government to offer noise mitigation measures relating to existing airport activities. Based on the Group's evaluation, payments under current noise schemes are estimated at £31 million spread over the five years commencing 2007. The schemes include the provision of noise insulation for community buildings and dwellings and assistance with the costs of relocation for dwelling owners. The Group is committed to reviewing these schemes in 2010.

In June 2006, the Government announced its conclusions for the 2006-2012 night flights regime at the Group's airports. The regime commits the Group to introducing a new domestic noise insulation scheme at Heathrow and Stansted to address the impact of night flights on local communities. The Group estimates that payments under this scheme will total £62 million over the five years from 2008. The Government is expected to consult on proposals for the post 2012 night flights regime during 2010. Until this consultation process is complete, the Group is unable to quantify potential obligations under a future night flights regime.

The January 2009 Government announcement 'Adding Capacity at Heathrow' requires the Group to review existing insulation and mitigation schemes; and to consider extending its noise insulation schemes to all community buildings and households in the new 57dBA contour that will experience an increase in noise of 3dBA or more.

Until further consultation is carried out with the local communities, the significance of the Group's obligations in implementing these schemes is uncertain.

Other commitments

In July 2008, the Group reached agreement with the Trustees of the BAA Airports Limited defined benefit pension scheme to contribute £70 million per annum for a period of three years ending 31 December 2011. The Group expects to contribute this amount to the pension plan in the year ending 31 December 2010.

Notes to the Financial Statements

29 Commitments and contingent liabilities *(continued)*

Contingent liabilities
The Group has external contingent liabilities, comprising letters of credit, performance/surety bonds, performance guarantees and other items arising in the normal course of business amounting to £265 million at 31 December 2009 (2008: £317 million).

Under the SSA hedging costs properly incurred by BAA Airports Limited in relation to the Employee Share Ownership Plan (ESOP) may be recharged to the Group. At 31 December 2009, the ESOP swap held in BAA Airports Limited had a fair value loss of £70 million (2008: £117 million). The Group may be obligated to settle its share of these amounts in the future, depending on a number of factors, including the number of options vesting, the number of options being exercised and the Ferrovial share price at exercise date. Accordingly, this is disclosed as a contingent liability and included in the amount above.

30 Notes to the consolidated cash flow statement

Reconciliation of net loss before tax to cash generated from continuing operations

	Note	**Year ended 31 December 2009 £m**	Restated[1] Year ended 31 December 2008 £m
Operating activities			
Net loss before tax		**(693)**	(389)
Adjustments for:			
Finance income	*5a*	**(151)**	(65)
Finance costs	*5a*	**788**	693
Fair value loss/(gain) on financial instruments	*5b*	**120**	(129)
Depreciation[2]	*2*	**429**	356
Amortisation	*2*	**27**	27
Loss on sale of property, plant and equipment	*2*	**-**	1
Exceptional costs[2]	*2/4*	**55**	84
Fair value loss on investment properties	*10*	**93**	147
Decrease/(increase) in trade and other receivables		**97**	(240)
Increase in inventories		**-**	(1)
(Decrease)/increase in trade and other payables		**(81)**	130
Increase in provisions		**2**	2
Decrease in deferred income		**(21)**	-
Difference between pension charge and cash contributions		**186**	22
Cash generated from continuing operations		**851**	638

[1] The presentation of balances for the year ended 31 December 2008 has been restated to be consistent with current year disclosures.
[2] Heathrow Terminals 1 and 2 accelerated depreciation reported as exceptional items.

31 Related party transactions
During the year the Group entered into the following transactions with related parties:

	Year ended 31 December 2009 Sale of goods and services £m	Year ended 31 December 2008 Sale of goods and services £m
Swissport / Groundstar	**2**	4

	Year ended 31 December 2009 Purchase of goods and services £m	Year ended 31 December 2008 Purchase of goods and services £m
Ferrovial Agroman	**96**	23
Amey Airport Services Limited	**4**	1
Amey Community Limited	**1**	-
	101	24

Balances outstanding with related parties were as follows:

	31 December 2009		31 December 2008	
	Amounts owed by related parties £m	**Amounts owed to related parties £m**	Amounts owed by related parties £m	Amounts owed to related parties £m
Swissport / Groundstar	**-**	**-**	1	-
Ferrovial Agroman	**-**	**1**	-	-
	-	**1**	1	-

Notes to the Financial Statements

32 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Group is BAA (DSH) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Finecofer S.L. (55.9%) (as successor to Lernamara S.L. and Ferrovial Infraestructuras S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de dépôt et placement du Québec-controlled vehicle) and Baker Street Investment Pte Ltd (17.6%) (an investment vehicle of the Government of Singapore Investment Corporation). The ultimate parent entity of the majority shareholder is Ferrovial S.A. (Spain).

The Group's results are also included in the audited consolidated financial statements of BAA Limited and FGP Topco Limited for the year ended 31 December 2009.

Copies of the financial statements of FGP Topco Limited and BAA Limited may be obtained by writing to the Company Secretary at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

33 Principal subsidiaries

The principal subsidiaries whose financial position materially affects the Group are as follows:

Holding companies
BAA (AH) Limited †
BAA (SP) Limited

Airport owners and operators
Heathrow Airport Limited†
Stansted Airport Limited†

Other
BAA Funding Limited †#
Heathrow Express Operating Company Limited †

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom.

34 Subsequent events

In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares of £1.00 each to BAA (DSH) Limited. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (SP) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share.

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Independent auditors' report to the members of BAA (SH) Limited

We have audited the financial statements of BAA (SH) Limited for the year ended 31 December 2009 which comprise the balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the parent Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of BAA (SH) Limited for the year ended 31 December 2009.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2010

BAA (SH) Limited

Company balance sheet as at 31 December 2009

	Notes	31 December 2009 £m	31 December 2008 £m
Fixed assets			
Investment in subsidiary	3	**2,792**	2,509
Current assets			
Debtors: due within one year	4	**16**	76
: due after more than one year	4	**1,566**	1,566
Cash at bank and in hand		**1**	-
		1,583	1,642
Creditors: amount falling due within one year	5	**(16)**	(75)
Net current assets		**1,567**	1,567
Total assets less current liabilities		**4,359**	4,076
Creditors: amounts falling due after more than one year	6	**(1,566)**	(1,566)
Net assets		**2,793**	2,510
Capital and reserves			
Called up share capital	7	**2,792**	2,509
Profit and loss reserve	8	**1**	1
Total shareholder's funds		**2,793**	2,510

The financial statements set out on pages 58 to 62 were approved by the Board of directors and authorised for issue on 31 March 2010 and signed on behalf of the Board.

Jose Leo
Director

Frederick Maroudas
Director

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice ('UKGAAP')).

The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Turnover
Turnover is recognised in accordance with Financial Reporting Standard ('FRS') 5 'Reporting the substance of transactions', net of VAT.

Interest
Interest payable and receivable is charged or credited to the profit and loss account as incurred.

Investments in subsidiaries
Investments are held as fixed assets and are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Investments in subsidiary undertakings include interest free loans to subsidiaries, that have no fixed repayment date.

Debtors
Debtors are recognised initially at cost less any provision for diminution in value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

Cash
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand when a right to offset exists.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Current and deferred taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in reserves.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

In accordance with FRS 19, 'Deferred Tax', deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Dividend distribution
A dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the shareholders' right to receive payment of the dividend is established by approval of the dividend at the Annual General Meeting. Interim dividends are recognised when paid.

Foreign currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Sterling, which is the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency of the entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the period-end. Differences arising on translation are charged or credited to the profit and loss account.

Share capital
Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium reserve.

Cash flow statement and related party transactions
The ultimate parent entity in the UK is FGP Topco Limited, a company registered in England and Wales. The results of the Company are included in the audited consolidated financial statements of FGP Topco Limited for the year ended 31 December 2009. The results are also included in the audited consolidated financial statements of BAA (SH) Limited for the year ended 31 December 2009 (the smallest group to consolidate these financial statements for the full year). They are also included in the audited consolidated financial statements of BAA Limited for the year ended 31 December 2009. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)'.

The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are related to, or part of, the FGP Topco Limited group.

Notes to the Financial Statements

2 Company result for the year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit of the Company for the year attributable to shareholders was £nil (2008: £1 million).

3 Investment in subsidiary

	Total £m
Balance at 1 January 2009 at cost	2,509
Additions	283
Balance at 31 December 2009	**2,792**

On 13 November 2009 and 4 December 2009, the Company injected additional share capital of £260 million and £23 million respectively into BAA (SP) Limited.

The Company's principal subsidiaries are as follows:

Holding companies
BAA (AH) Limited †
BAA (SP) Limited

Airport owners and operators
Heathrow Airport Limited †
Stansted Airport Limited †

Other
BAA Funding Limited†#
Heathrow Express Operating Company Limited †

† Held by a subsidiary undertaking
# Incorporated in Jersey

Unless otherwise indicated, all subsidiaries are wholly owned and are incorporated and operate in the United Kingdom.

On 3 December 2009, the BAA Group sold Gatwick for cash consideration of £1,445 million and deferred consideration of up to £55 million conditional on future traffic performance and the acquirer's future capital structure.

The investment in Gatwick Airport Limited was held by a subsidiary undertaking of the Company.

4 Debtors

	31 December 2009 £m	31 December 2008 £m
Due within one year		
Interest receivable from group undertakings	**16**	75
Group relief receivable	**-**	1
	16	76
Due after more than one year		
Amounts owed by group undertakings - interest bearing[1]	**1,566**	1,566
Total debtors	**1,582**	1,642

[1] Amounts owed by group undertakings - interest bearing relate to unsecured debenture advanced to the Company's subsidiary BAA (SP) Limited. The interest on the loan is set at 0.01% above the rate of the Subordinated Facility. As at 31 December 2009, the rate on the loan was 4.57%. The loan has a final redemption date of May 2011.

5 Creditors: amounts falling due within one year

	31 December 2009 £m	31 December 2008 £m
Interest payable	**16**	75

Notes to the Financial Statements

6 Creditors: amounts falling due after more than one year

	31 December 2009 £m	31 December 2008 £m
Secured		
Subordinated facility due 2011	**1,566**	1,566

	31 December 2009		31 December 2008	
Fair value of borrowings	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Long term debt	**1,566**	**1,566**	1,566	1,566

For unlisted borrowings, the Company establishes fair values by using valuation techniques such as discounted cash flow analysis. The fair value of non-current borrowings which have floating rate interest are assumed to equate to their current nominal value.

Additional disclosures on risk management and hedging of borrowings are included in Note 17 'Derivative financial instruments' and 18 'Financial instruments' of the Group financial statements.

7 Share capital

	£
Authorised	
At 1 January 2009 and 31 December 2009:	
9,000,000,000 ordinary shares of £1 each	**9,000,000,000**
Called up, allotted and fully paid	
In issue at 1 January 2009: 2,509,350,689 ordinary shares of £1 each	2,509,350,689
Issue of 260,000,000 ordinary shares of £1 each	260,000,000
Issue of 22,629,685 ordinary shares of £1 each	22,629,685
In issue at 31 December 2009: 2,791,980,374 ordinary shares of £1 each	**2,791,980,374**

On 13 November 2009, the Company issued 260,000,000 ordinary shares of £1.00 each to BAA (DSH) Limited. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

A further 22,629,685 ordinary shares of £1.00 each were issued to BAA (DSH) Limited on 4 December 2009. On the same day, the Company purchased an equivalent number of shares issued by its subsidiary, BAA (SP) Limited.

8 Profit and loss reserve

	£m
Balance at 1 January 2009	1
Result for the financial year	-
Balance at 31 December 2009	**1**

9 Dividends paid and proposed

Details of dividends paid for the year are provided in Note 8 'Dividends' of the BAA (SH) Limited Group financial statements.

Notes to the Financial Statements

10 Auditors' remuneration

Auditors' remuneration paid to PricewaterhouseCoopers LLP for the performance of the statutory audit amounted to £20,000 (2008: £20,000).

Details of fees for other services are provided in Note 2 'Operating costs' of the BAA (SH) Limited Group financial statements.

11 Employee information and Directors' remuneration

Employee numbers
The Company has no employees (2008: nil).

Directors' remuneration
None of the directors who served BAA (SH) Limited during the year received emoluments from the Company.

During the year, none of the directors (2008: one) had retirement benefits accruing to them under a Group defined benefit pension scheme and one of the directors (2008: none) had retirement benefits accruing to them under the defined contribution pension scheme.

Details of directors' remuneration for the year are provided in Note 3 'Employee information and directors' emoluments' of the Group financial statements.

12 Ultimate parent undertaking and controlling party

The immediate parent undertaking is BAA (DSH) Limited, a company registered in England and Wales.

The ultimate parent entity in the UK is FGP Topco Limited, which is the parent undertaking of the largest group in the UK to consolidate these financial statements. The shareholders of FGP Topco Limited are Finecofer S.L. (55.9%) (as successor to Lernamara S.L. and Ferrovial Infraestructuras S.A.), Britannia Airport Partners L.P. (26.5%) (a Caisse de dépôt et placement du Québec-controlled vehicle) and Baker Street Investment Pte Ltd (17.6%) (an investment vehicle of the Government of Singapore Investment Corporation). The ultimate parent entity of the majority shareholder is Ferrovial S.A. (Spain).

The Company's results are also included in the audited consolidated financial statements of BAA (SH) Limited for the year ended 31 December 2009, which is the smallest group to consolidate these financial statements. They are also included in the audited consolidated financial statements of BAA Limited and FGP Topco Limited for the year ended 31 December 2009.

Copies of the financial statements of FGP Topco Limited and BAA Limited may be obtained by writing to the Company Secretary at The Compass Centre, Nelson Road, Hounslow, Middlesex, TW6 2GW.

13 Post balance sheet events
In January 2010, the £500 million equity injection announced in November 2009 was completed with the Company issuing 217,370,315 ordinary shares of £1.00 each to BAA (DSH) Limited. The proceeds were utilised by the Company to purchase an additional 217,370,315 ordinary shares in BAA (SP) Limited with a nominal value of £0.0019 each and at a premium of £0.9981 per ordinary share.

Registered office
BAA (SH) Limited, The Compass Centre, Nelson Road, Hounslow, Middlesex, London TW6 2GW
Registered in England No. 06458635